

H. Carl McCall
Comptroller

State of New York
Office of the State Comptroller

Village of Brookville

Report of Examination

96M-312

Division of Municipal Affairs
Bureau of Examinations

**TO THE MAYOR AND MEMBERS
OF THE BOARD OF TRUSTEES
OF THE VILLAGE OF BROOKVILLE,
NASSAU COUNTY, NEW YORK:**

Among my top priorities as the State Comptroller is to maintain a strong partnership between my office and the local governments of New York State. One of the main objectives of this partnership is to assist local governments in improving their financial condition and strengthening their financial management systems.

The audit reports issued by my office are an important component in accomplishing this objective. These reports are expected to be a resource to you. They are designed to identify current and emerging fiscal problems and provide recommendations for improvement.

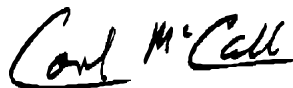
Prudent fiscal management, sound fiscal policy and a commitment to working together will enable us to serve the taxpayers more effectively by making better use of our limited resources. Toward this end, I look forward to working with your municipality and all other local governments throughout the State.

To make our audit report more useful and understandable, it now includes:

- g Table of contents;
- g Executive summary to highlight recommendations; and
- g Headings that separate Findings and Recommendations.

If my office can be of assistance to you or if you have any questions concerning this audit report, please feel free to contact the local area office for your county listed at the back of this report.

Sincerely,



H. Carl McCall

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EXECUTIVE SUMMARY

Our examination disclosed findings which should be reviewed by the Board of Trustees for appropriate action. Good management practices require that village officials take prompt action concerning our recommendations. We believe prompt action by village officials will protect the village's resources from possible loss or improper use, and ensure its compliance with appropriate statutory requirements. For the ready reference of the reader, the recommendations are summarized in the following section. However, this is not meant to serve as a substitute for reviewing the Findings and Recommendations section of the report, which begins on page 7. Please note that of the three findings in this report, one finding is similar to a finding contained in our prior Report of Examination issued February 1, 1993.

The Board of Trustees should prepare a plan of action that addresses our recommendations and forward the plan to our office within ninety days. For guidance in preparing the plan of action, you may refer to applicable sections contained in the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

We are available to assist you in providing guidance in preparing the plan. The local area office for your county is listed in the back of this report.

SUMMARY OF RECOMMENDATIONS

! Internal Control and Compliance !

An effective system of internal control is necessary so that the Board of Trustees can have reasonable assurance that resources are safeguarded and that transactions are executed in accordance with management's authorization, are in accordance with statutory requirements and are properly recorded.

Failure to establish proper controls could expose the village's resources to loss or improper use. The following recommendations help ensure that the village's resources are not at risk and that transactions are properly authorized and are in compliance with statutory requirements.

Security and Custodial Agreements *(For Full Discussion See Commentary, Page 7)*

In order to properly secure village deposits, the Board of Trustees should require a pledge of securities as collateral to secure all deposits in excess of F.D.I.C. coverage and should enter into written security and custodial agreements with the banks holding village deposits and related collateral securities.

Payments for Professional Services *(For Full Discussion See Commentary, Page 8)*

All professional services should be authorized in advance by the Board of Trustees. The Board of Trustees should enter into written agreements with all professionals, stipulating the services to be provided and the basis for compensation.

Solicitation of Competitive Quotations *(For Full Discussion See Commentary, Page 9)*

The Board of Trustees should ensure that there is compliance with the procurement policy regarding the solicitation of competitive quotations. To help ensure compliance with the procurement policy a record of solicitations should be maintained.

Report: 96M-312
Filed: August 30, 1996

AUTHORITY AND SCOPE LETTER

**TO THE MAYOR AND MEMBERS
OF THE BOARD OF TRUSTEES
OF THE VILLAGE OF BROOKVILLE,
NASSAU COUNTY, NEW YORK:**

Pursuant to the State Constitution, Article V, §1 and further authority vested in the State Comptroller by Article 3 of the General Municipal Law, we have examined the financial affairs of the Village of Brookville.

Our responsibilities are to review the financial condition and fiscal operations of the village in order to identify areas needing improvement and to inform local officials and the public of our findings and recommendations. Consistent with these responsibilities, the objectives of this examination were to identify conditions indicating possible fiscal stress and to test for noncompliance with certain finance related statutory and regulatory provisions as well as guidance of the Office of the State Comptroller. It was not our objective to, and we do not, express an Audit Opinion on the financial statements of the village or provide assurance as to either its internal control structure or the extent of its compliance with statutory and regulatory requirements as well as guidance of the Office of the State Comptroller.

The management of the village is responsible for its financial affairs and for safeguarding its resources. This responsibility includes establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that resources are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and are properly recorded; that appropriate financial reports are prepared; that applicable laws, rules and regulations are observed; and that appropriate corrective action is taken in response to audit findings. Nevertheless, errors, irregularities, or instances of noncompliance may occur and not be detected because of inherent limitations in any internal control structure.

In determining the scope of our examination, we conducted an initial audit survey for the village's fiscal operation for the period June 1, 1994 through December 31, 1995. We obtained an overview of the operations through inquiry, analytical procedures, observations and the inspection of records and reports. In this process, we considered the village's financial condition, its internal controls, applicable statutory provisions, guidance of the Office of the State Comptroller and other relevant information. As a result of this planning process, we limited our examination to the following areas:

- Clerk-Treasurer's Records and Reports
- Cash Management—Receipts and Disbursements
- Cash Management—Deposits and Investments
- Purchasing
- Claims Processing
- Payroll
- Retirement Reporting
- Real Property Taxes

We conducted our examination in accordance with Generally Accepted Government Auditing Standards (Government Auditing Standards, issued by the Comptroller General of the United States). For the areas selected, we gained an understanding of the village's internal control structure. Based upon this understanding, we assessed risks and designed and performed such tests which we considered necessary to satisfy our audit objectives. The period covered by our procedures is noted in each of the findings contained in the Findings and Recommendations section of this report. We believe that our examination provides a reasonable basis for our report.

The results of our examination procedures disclosed certain findings and recommendations which are presented in this Report of Examination. These findings and recommendations have been discussed with local officials and their comments have been considered in preparing this report.

The Board of Trustees has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board of Trustees should prepare a plan of action that addresses the recommendations in this report. We encourage the Board of Trustees to prepare a corrective action plan which would be available for public review in the village clerk-treasurer's office and the Office of the State Comptroller.

Very truly yours,

Office of the State

Comptroller

OFFICE OF THE STATE COMPTROLLER
DIVISION OF MUNICIPAL AFFAIRS

Albany, New York
May 6, 1996

FINDINGS AND RECOMMENDATIONS

! Internal Control and Compliance !

Security and Custodial Agreements

Finding

The Board of Trustees has not entered into written security and custodial agreements with the banks holding village deposits and related collateral securities. At January 31, 1996, deposits in excess of Federal Deposit Insurance Corporation (F.D.I.C.) coverage totaled approximately \$745,000.

Section 10 of the General Municipal Law requires that all village deposits in excess of F.D.I.C. coverage be secured by a pledge of collateral or an eligible letter of credit or a surety bond; that there be a written security agreement which would provide that the collateral is being pledged by the bank or trust company as security for the village's deposits; and that the village have a written custodial agreement with the custodial bank or trust company. This agreement must acknowledge that the pledged collateral is being held by the custodial bank or trust company as agent of, and custodian for, the village. Although the legislation contains acknowledgment that the depository and the custodian may be the same bank or trust company, the Office of the State Comptroller continues to stress to local governments that they must carefully evaluate all pertinent legal and practical risk factors before making a decision with respect to the delivery of collateral.

Recommendation

In order to properly secure village deposits, the Board of Trustees should require a pledge of securities as collateral to secure all deposits in excess of F.D.I.C. coverage and should enter into written security and custodial agreements with the banks holding village deposits and related collateral securities. Generally, the F.D.I.C. insures an official custodian of funds, regardless of the number of individual accounts, up to \$100,000 for time and savings deposits per bank and up to \$100,000 for demand deposits per bank. Additional coverage may be available under certain circumstances.

The Office of the State Comptroller has updated Section 2 of the manual entitled *Financial Management Guide for Local Governments* to provide implementation guidance for compliance with the legislation. The village should immediately review this guidance to help assure that the village's security and custodial agreements will be in compliance with the legislation.

Payments for Professional Services

Finding

No written agreements or resolutions adopted by the Board of Trustees were presented to us describing the scope of services to be provided and the basis for compensation to be paid for various professional services rendered to the village during the period January 1, 1995 to December 31, 1995.

Engineering Firm

An engineering firm was paid a total of \$21,622 during the period January 1, 1995 to December 31, 1995 for various engineering services. There was no written agreement or resolution adopted by the Board of Trustees presented to us describing the services to be provided and establishing the basis for compensation.

Law Firms

During the period January 1, 1995 to December 31, 1995 the village paid two law firms a total of \$12,262 and \$1,042, respectively. We were not presented with written agreements or resolutions adopted by the Board of Trustees indicating the scope of services to be provided and the bases for compensation.

Village Attorney

During the period January 1, 1995 to December 31, 1995 the village attorney was paid a total of \$47,985 for services rendered. This total consisted of salary of \$38,460 and payments for services totaling \$9,525 not covered by his annual salary. A resolution adopted by the Board of Trustees on November 10, 1992 indicated that payment for services not covered by the annual salary would be paid "at a rate in conformance with neighboring villages". However, the resolution did not specify the hourly rate.

The scope of services to be provided and the basis for compensation for services should be clearly documented in a written contract so that the village and the professionals have a clearly defined and mutually agreed upon basis for determining entitlement to payments.

Recommendation

All professional services should be authorized in advance by the Board of Trustees. The Board of Trustees should enter into written agreements with all professionals, stipulating the services to be provided and the basis for compensation.

Our prior Report of Examination included a similar finding with respect to the village attorney and one of the law firms.

Solicitation of Competitive Quotations

Finding

Village officials did not always comply with their procurement policy regarding the solicitation of quotations when competitive bidding was not required by Section 103 of the General Municipal Law.

On January 1, 1992 the Board of Trustees adopted a procurement policy that provides that village officials should solicit a minimum of two verbal quotations and a maximum of three written/fax quotations or written requests for proposals for purchase and public work contracts which are not subject to competitive bidding. The ranges set by the procurement policy include a minimum of \$250 for purchase and public work contracts and maximums of \$9,999 and \$19,999 for purchases and public work contracts, respectively.

Our test of the village's compliance with their procurement policy included three public work contracts and one purchase contract. The three public work contracts included \$4,000 for the vacuuming of catch basins, \$2,960 for road painting and \$1,400 for road maintenance. The procurement policy required two written/fax quotations for the catch basins and two verbal quotations for the road painting and road maintenance contracts. We were informed that in all three cases no quotations were solicited from other vendors. The village did comply with the procurement policy with respect to the purchase of furniture costing \$2,446.

Recommendation

The Board of Trustees should ensure that there is compliance with the procurement policy regarding the solicitation of competitive quotations. To help ensure compliance with the procurement policy a record of solicitations should be maintained.

APPENDIX

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