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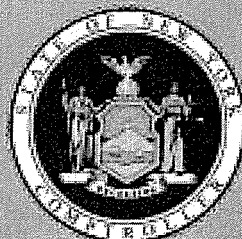
VILLAGE OF HASTINGS-ON-HUDSON

Report of Examination

Period Covered:

June 1, 2002 to January 21, 2003

2004M-14



ALAN G. HEVESI



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April 16, 2004

Report #2004M-14
Village of Hastings-on-Hudson

Mr. Neil Hess
Village Treasurer
Village of Hastings-on-Hudson
7 Maple Ave.
Hastings-on-Hudson, NY 10706



Dear Mr. Hess:

Enclosed is a Report of Examination for the Village of Hastings-on-Hudson prepared by the Office of the State Comptroller. A copy of the report has been mailed to the person responsible for filing such report and making it available for public inspection.

The examination was made, and report prepared, in accordance with the authority granted to the State Comptroller by the State Constitution, Article V, §1 and Article 3 of the General Municipal Law. The report should be studied by all appropriate officials and a written response to the audit findings should be prepared and filed within ninety days, pursuant to Subdivision 4 of Section 35 of the General Municipal Law. The development of a corrective action plan and its implementation are important steps in improving financial management. Section 11.4 of the Financial Management Guide for Local Governments issued by the Office of the State Comptroller discusses the filing requirements and provides guidance concerning the preparation of a written response. The written response should be addressed to:

Office of the State Comptroller
Division of Local Government Services
and Economic Development
Bureau of Examinations
110 State Street, 12th Floor
Albany, NY 12236

I trust that this report will be of assistance to you. If you require assistance or if you have any questions, please feel free to contact the local regional office for your county listed at the back of the enclosed report.

Very truly yours,

Steven J. Hancox
Assistant Comptroller
Division of Local Government Services
and Economic Development

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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

April 2004

Dear Village Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where local governments can improve their operations and provide guidance and services that will assist local officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage local government officials to reduce costs, improve service delivery and to account for and protect their governments' assets.

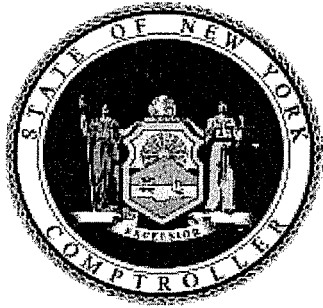
The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Village of Hastings-on-Hudson.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, §1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by the Board of Trustees.

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

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government Services
and Economic Development*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Village of Hastings-on-Hudson provides various services to residents including public safety, health, transportation, economic opportunity and development, culture and recreation, home and community services and general and administrative support. Most of the Village's expenditures incurred in providing these services are accounted for in the general fund. For the fiscal year ended May 31, 2003, the general fund expenditures totaled \$8,178,689. The Village also provides many recreational opportunities for the health and welfare of residents. Revenue to support the Village's Pool Fund is generated through fees charged for use of the facilities. Pool fees for the fiscal year ended May 31, 2003 amounted to \$270,531.

Scope and Objectives

The objective of our audit was to evaluate the Village's purchasing, investments and fixed assets policies and procedures and the financial condition of the Pool Fund. Our audit addressed the following questions related to the Village of Hastings-on-Hudson for the period June 1, 2001 through May 31, 2003.

- Were purchases made in accordance with the Village's purchasing policy and legal requirements?
- Were claims for goods and services properly supported by written contracts, purchase orders and receiving reports?
- Were investments made and secured in accordance with management's authorization, State Comptroller's guidelines and legal requirements?
- Did the Village have adequate policies and procedures to record and safeguard fixed assets?
- Did the Village maintain the Pool Fund balance and cash flow at a sufficient level to finance operations?

Audit Results

We found some purchase orders were issued after the purchases had been made, some claims were not supported by receiving reports, instances where officials did not comply with the Village's purchasing policy; and payments for legal and transcriber services were not supported by a written contract. We also found that the Village invested moneys in a type of account not authorized by the Village's investment policy and that the Village did not maintain a detailed inventory of fixed assets.

The pool fund reported a deficit fund balance of \$86,335 at May 31, 2003. This was mainly the result of unbudgeted expenditures of over \$72,200 incurred in the fiscal year 2001-2002, and the overestimation of revenues by \$20,682 in the same year. To help finance its operations, the pool fund received temporary loans from other funds.

Comments of Local Officials

We discussed the results of our audit and recommendations with Village officials and their comments were considered in preparing this report. We gave local officials an opportunity to respond in writing to our findings and recommendations within 30 days of our exit conference, but they did not respond.

Introduction

Background

The Village of Hastings-on-Hudson provides various services to its residents. Among these are general and administrative support, public safety, health, and transportation. Revenues to support these activities are raised through property taxes and, to a lesser extent, departmental fees. For the fiscal year ending May 31, 2003 total revenue amounted to \$8,178,689, with property taxes accounting for \$5,160,902 or 69 percent of the total. Since property taxes are raised during a specific period, the majority of the amount assessed to taxpayers is collected within a short period for use throughout the fiscal year. This leaves a significant amount of funds available for investment until they are needed to finance operations.

The Village also provides many recreational opportunities for the health and welfare of residents. Revenue to support the Village's Pool Fund is generated through fees charged for use of the facilities. Pool fees for the fiscal year ended May 31, 2003 amounted to \$270,531.

Objectives

The objective of this audit was to evaluate the Village's purchasing, investments and fixed assets policies and procedures and the financial condition of the Pool Fund.

Our audit addressed the following questions:

- Were purchases made in accordance with the Village's purchasing policy and legal requirements?
- Were claims for goods and services properly supported by written contracts, purchase orders and receiving reports?
- Were investments made and secured in accordance with management's authorization, State Comptroller's guidelines and legal requirements?
- Did the Village have adequate policies and procedures to record and safeguard fixed assets?
- Did the Village maintain the Pool Fund balance and cash flow at a sufficient level to finance operations?

Scope and Methodology

During this audit, we examined selected financial activities of the Village of Hastings-on-Hudson for the period June 1, 2001 to January 23, 2003, and the financial condition of the Village Pool Fund for the period ended May 31, 2003.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of Local Officials and Corrective Action

We discussed the results of our audit and recommendations with Village officials and their comments were considered in preparing this report. We gave local officials an opportunity to respond in writing to our findings and recommendations within 30 days of our exit conference, but they did not respond.

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 and forward the plan to our office within ninety days. For guidance in preparing your plan of action, you may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board of Trustees to make this plan available for public review in the Village clerk's office.

CLAIMS PROCESSING

Our examination disclosed procedural and internal control weaknesses related to the Village's claims processing procedures. We found that purchase orders were issued after the purchases had been made and some claims were not supported by signed receiving reports or invoices to indicate that the goods or services had been received. Also, for the purchases we tested, there was no documentation to show that the Village had obtained the quotes required by the Village's purchasing policy. We also found that payments for legal and transcriber services were not supported by written contracts and copy of a contract was not available to verify that a purchase had been made under state contract.

The audit of claims should be a deliberate and thorough process of determining that each claim is a proper Village charge and is properly documented to enable Village officials and others to know exactly what claims were audited and approved for payment.

Claims Verification and Approval

To test for compliance with procedural controls over the verification and approval of claims, we examined 29 claims paid during the period covered by our audit. Nine claims for purchases of supplies indicated that the items were received prior to the authorization and issuance of the related purchase orders. We also noted that 12 claims for the purchases of supplies and services were not supported by receiving reports or invoices signed by Village employees responsible for receiving goods and services.

Preparing a purchase order after making a purchase defeats the intent of a purchase order system and increases the cost of processing claims unnecessarily. In addition, the failure to utilize purchase orders as intended, limits management's ability to exercise effective budgetary control over appropriations; it reduces management's ability to prevent unauthorized purchases, and to efficiently plan and coordinate the procurement of goods and services. In addition, the primary purpose of the receiving reports or signed invoices is to provide the information necessary to properly audit a claim and ascertain that the goods or services were received by the Village.

Compliance with Procurement Policy

The Board of Trustees adopted a written procurement policy that provides guidance for procuring goods and services that are not required by law to be competitively bid. The Village's procurement policy generally requires, with certain exceptions, that either requests for proposals or quotes, written or oral, be obtained depending on the estimated cost of each contract. All information gathered in complying with the above procedures is required to be documented. If the purchaser is unable to obtain the required number of quotations or proposals, the purchaser is required to document the attempt at obtaining the quotes or proposals.

We tested four purchases, each costing less than \$10,000, for compliance with the Village's adopted procurement policy. Although all of the items selected required verbal or written quotes, Village officials provided no documentation to indicate that the required verbal or written quotes had been obtained. These purchases ranged from \$2,110 to \$2,765 and included purchases of tables, tires, nursery and swimming pool supplies. The failure of Village officials and employees to follow the procurement policy adopted by the Board of Trustees increases the possibility that goods and services may not be acquired economically, which could result in excess costs to the Village.

Payments for Professional Services

The absence of written contracts for professional services, stipulating the rights and responsibilities of all parties involved in a transaction, reduces the Village's ability to properly audit the claim. Our test disclosed the following:

- A legal firm providing services for the Village was paid \$94,283 during the fiscal year 2002. A written contract between the Village and the firm for that period, stipulating the services to be provided and the basis for compensation was not available. Therefore we could not verify the validity of the charges for that period. Village officials provided a letter indicating that the firm agreed to provide legal services from April 1, 2000, to April 30, 2001, for a retainer of \$40,000. Village officials also stated that the Board of Trustees did not renew the contract but continued to use the firm for legal services.
- An individual was paid \$7,495 for serving as the transcriber of the Minutes of Proceedings for the Board of Trustees. We were not provided with a written agreement or resolution stating the basis for compensation for this service. Therefore, we could not verify the validity of the payments, and we question the Village Board's ability to properly audit these claims.

Recommendations

1. The Board of Trustees should require that procurements of goods and services be made after a properly executed purchase order is approved and issued to the vendor. In addition, all claims for payment should be supported by receiving reports or other documentation attesting to the proper receipt of goods and services.
2. Village officials should ensure compliance with provisions of the Board of Trustee's adopted procurement policy. Copies of the procurement policy should be distributed to officials and employees responsible for procuring goods and services. Documents supporting compliance with the procurement policy should be retained on file.
3. The Village should enter into written agreements with professionals setting forth the services to be provided, the compensation to be paid and the duties and responsibilities of each party in the contract.
4. Village officials should evaluate current procedures for processing and approving claims for payment and take action to eliminate existing procedural deficiencies.

CASH INVESTMENTS

Village's funds were invested in a cooperative investment pool account. Although this type of investment is permissible by law, it is not authorized by the adopted Investment Policy.

The Village Board of Trustees adopted an Investment Policy in September 1981, which provides specific guidelines for the investment of Village funds. This policy covers the fundamental objectives of minimizing risk, ensuring that investments mature when cash is required to finance operations, and ensuring a competitive rate of return on investments. The policy designated the Treasurer or other officer having custody of Village monies to invest all funds, including proceeds of obligations and reserve funds, in various types of investments or instruments.

In order to test for compliance with the adopted Investment Policy we reviewed the Village's cash and investment activity for the month of June 2002. Our review found that on June 30, 2002, a total of \$1,992,164 of Village's funds were invested in a cooperative investment pool account that, although permissible by law, was not authorized by the adopted investment policy.

Recommendation

5. The Village treasurer should invest Village money in accordance with the provisions set forth in the Village Investment Policy. If the Village Board of Trustees wishes to invest Village moneys in a cooperative investment pool, they should modify the adopted policy to allow for this type of investment.

FIXED ASSETS

A complete detailed inventory record of the Village assets including buildings, land, furnishings, and other equipment was not maintained. In addition, the responsibilities for maintaining general fixed asset records were not assigned and defined by the Board of Trustees.

The Village reported fixed assets of \$14,997,159 for fiscal year end May 31, 2003. This total represents a carried forward balance from prior years, as adjusted at year-end to reflect current year additions and deletions in fixed assets.

Complete and accurate accounting records for general fixed assets are necessary for proper financial reporting in conformity with generally accepted accounting principles. These records fix responsibility for the control and custody of municipal property and help provide assurance that such property is properly safeguarded. In addition, the records can be useful in determining insurance coverage and preparing claims for insurance recoveries as well as in long range capital planning. In an effort to accomplish this, the Board of Trustees should:

- Designate to an individual the responsibility for maintaining the fixed asset inventory records and for developing written procedures for inventory control. Such procedures should ensure the accuracy of the inventory records and require that all acquisitions and dispositions of fixed assets are properly accounted for and recorded in the inventory records.
- Resolve that an inventory of Village owned assets be taken. Initially, these assets should be recorded in the fixed asset general ledger accounts at original cost, or estimated original cost, if the actual cost cannot be determined.
- Require that subsidiary records be established to include the following information.
 - A description of the assets, including serial number and model number.
 - An identification number, which should be affixed to the property where practical.
 - Date of acquisition, cost and location.
 - Date, method and authorization for any disposition.

- Require that periodic physical inventories be taken and compared to the fixed asset records. If discrepancies are found, they should be investigated and the fixed assets records adjusted, as necessary. Effective internal controls require that such inventories be taken by someone other than the custodian of the asset.

Recommendation

6. The Board of Trustees should ensure that complete and accurate fixed assets records are maintained.

POOL FUND DEFICIT

Village Law, §5-520(2) provides that no expenditure shall be made nor any contract be entered into unless an amount has been appropriated for the particular purpose and is available for use. The annual operating budget of a Village represents an orderly financial plan for the operation of Village activities. The appropriations in it represent choices by the Board of Trustees as to the allocation of Village resources to specific purposes and establish spending limits for these various purposes. Therefore, the requirement that an appropriation be available prior to an expenditure being made is more than just a legal formality. This is also a requirement of effective budgetary control, needed to insure that moneys are available for expenditure for each of the purposes enumerated in the budget. Failure to limit expenditures to available appropriations creates the risk that money may not be available when required for necessary expenditures.

The pool fund balance decreased from a surplus of \$6,692 at May 31, 2001, to a deficit of \$86,192 at May 31, 2002. For the fiscal year ended May 31, 2003, the pool fund reported an operating deficit of \$143, increasing the fund deficit to \$86,335.

The primary cause for the decrease in fund balance was an operating deficit sustained in the 2001-2002 fiscal year of \$92,884. This operating deficit occurred as the result of expenditures exceeding budgetary appropriations by \$72,202 and actual revenues falling short of estimated revenues by \$20,682. According to Village officials, the overexpenditure in 2001-2002 occurred because unbudgeted engineering, planning, and attorney fees, were incurred in anticipation of major renovations of the pool facilities. However, the Board of Trustees had not formally established a capital project.

To help finance its operations, the pool fund received temporary loans from other funds. During our review, on April 2, 2002, the Board of Trustees, in recognition of the expected fund deficit, adopted a resolution increasing municipal pool and recreation fees by 50 percent.

Recommendation

7. The Mayor, the Village Manager, and the Board of Trustees should take appropriate measures to address the fund deficit. They should also very closely monitor the budget during the fiscal year to avoid incurring expenditures in excess of appropriations, and modify the budget whenever it appears that actual revenues will fall short of estimated revenues.

APPENDIX A

AUDIT METHODOLOGY AND STANDARDS

During this audit, we examined the financial condition of the Village Pool Fund for the period ended May 31, 2003 and selected financial activities of the Village of Hastings-on-Hudson for the period June 1, 2001 to January 23, 2003. To accomplish our objectives, we interviewed appropriate Village officials and employees, tested selected records and transactions, and examined pertinent documents. Our examination included a review of the Village's audited financial statements and the adopted budget for fiscal year 2002-2003 and a review of the results of operations of the pool fund reported for the fiscal year ended May 31, 2003. We also reviewed purchasing transactions and payments to individuals and vendors, and examined contracts and agreements for professional services for the period June 1, 2001 through January 21, 2003. We also examined the Villages' cash management practices and reviewed the administration of and accounting for general fixed assets.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and conduct our audit to adequately assess those municipal operations within our audit scope. Further, those standards require that we understand the municipality's management controls and those laws, rules and regulations that are relevant to the municipality's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX B

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APPENDIX C

OFFICE OF THE STATE COMPTROLLER DIVISION OF LOCAL GOVERNMENT SERVICES AND ECONOMIC DEVELOPMENT

Mark P. Pattison, Deputy Comptroller
Steven J. Hancox, Assistant Comptroller
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