

The Special/Audit Report Board Meeting of the Board of Trustees met in the Municipal Building, 14 Baker Street, Patchogue, New York on December 22, 2011.

The meeting was called to order at 9:45 a.m. by Mayor Pontieri with Trustees Crean, Devlin, Hilton, Krieger, McGiff, Village Treasurer Krawczyk, Village Attorney Egan and Village Clerk Seal present. Trustee Keyes was not present.

The flag salute was made and the safety message was read.

Village Krawczyk stated: I am here to introduce Chris Reino of Cullen & Danowski, our outside auditor. As a continuation of our last meeting, there were some recommendations in the audit that we should have certain policies in place. Those policies will be addressed. Also we will be working on a process to do some audit work internally on the gasoline usage.

Chris Reino stated: We met two weeks ago and I had drafts distributed. To continue on, are there any specific questions regarding any of the reports?

Trustee Hilton stated: One of the recommendations for this current year and apparently for the year before, where you recommended that the Village consider a procedure where someone outside of the payroll function review and document the review of any changes or additions to the table software program, on page. Is that something that we should address?

Village Treasurer Krawczyk stated: Paul and I have been talking that we have an individual that we would like to bring on board in January to do a few things. Number one the State auditors have recommended that the vouchers that have been approved and I signed should be reviewed by every Trustee. If every Trustee does not want to do that, they say we can have an outside auditor look at all those vouchers. We are looking at an individual who was an internal auditor who is retired now who would come in and review those vouchers before every Board meeting. Also, he would probably be the person that would be responsible to review the gasoline usage and do an audit on that. We would like to bring him in three or four days a month to do all those things. All the things that are in here we plan on addressing and going forward. As far as the policies are concerned, that is something that we have to do internally. We have policies from other Villages that we are going to look at.

Chris Reino stated: Municipal law requires the Board to oversee the operations. But, they can assign someone to be a notice of claims auditor. When you get into school districts, they are required to have claims auditors, but villages are not. But, there still is a responsibility of the Board to make sure the claims are reviewed. That is the option, but I think there was a recommendation of the other auditors. It is not required, but it is a good one to have. We were also waiting for their report and we wanted to combine their recommendations and address everything.

Mayor Pontieri stated: We do about 300 checks a month. So, part of it would be is if we decide as a Board to do the review, that means each one of would have to take 1-2 hours or whatever it takes to do the research on them. That 150 checks, plus whatever the number of payroll checks are. The thought is to follow the process used in school districts. To find an experienced claims auditor and have that person come in the Friday before each Board meeting to do those reviews and his give approval, prior to our approval Monday night when we sign off on them, and prior to any research that needs to be done.

Trustee Hilton stated: I think that also you mentioned a Trustee. When Trustee Joe Perry in my eyes was considered Commissioner of Dollars and Cents and I respected that a lot.

Village Krawczyk stated: But unfortunately, the auditors wants every Trustee to look at them.

Trustee Hilton stated: Well then the Trustee in charge, it would also be his/hers responsibility to make sure the other Trustees are aware. I think that is something we should bring back and I think one of us would volunteer to do it.

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Mayor Pontieri stated: The way municipal audit reads, each Trustee gets the stack. Even if you as claims commissioner went through and said all of them look fine, it doesn't matter. The way I understand municipal law to be is that each one of us would have to take that stack of 150 and go through them. And that is very difficult with those having jobs.

Trustee Devlin asked: If we hire a claims auditor, how many hours a week would it take for that job to be done?

Village Treasurer Krawczyk stated: It would take six hours a day, four or five days a month. We are looking at paying about \$20 per hour.

Trustee Hilton stated: I don't know if this is the time of thinking of adding another job, unless we are required to do so.

Mayor Pontieri stated: We probably will be required to do so. Or, we will have to commit to being here on Friday or Monday prior to the Board meeting because those vouchers can become available on Friday for review. That is where the dilemma is in terms of time.

Village Treasurer Krawczyk stated: I am not concerned about the vouchers because I don't sign a check until they are approved by either Patti or the Deputy. They review everything that is signed; so, is there a problem, no. But, we have to follow regulations and get this done.

Trustee Crean asked: Could someone in the Clerk's Office fill that role?

Mayor Pontieri stated: No. It has to be an independent auditor or us. That is the way I understand it.

Village Treasurer Krawczyk stated: Technically they are reviewing that now. They review all the claims and they don't sign off on them until they know that they are right. They are looking for an outside person or they want the Trustees to come in every week and review the claims.

Trustee Hilton stated: This is something that some of us are used to. I come in every week and review purchase orders. I think with this 2% thing coming up, it is something that we should be able to take on.

Deputy Treasurer Monte stated: With the claims auditor, it would it is not something that could be done on the Friday before the Board meeting--be done, finished and over with-- because we need to have everything done for the Board meeting. So checks for the Board meeting have been issued at that point, if not sent out. So the claims would have to be done by the Board on almost a weekly basis because we couldn't even process the claim until every Board member signs each voucher. So until I had all five of your signatures on that voucher, I could not process that voucher for a check. Which means that you guys would have to be doing this on an almost a weekly or bi-weekly basis in order to keep us running and issuing checks out of my office.

Village Treasurer Krawczyk stated: If you had an outside person, that person would just have to do an audit before every Board meeting.

Trustee Devlin stated: It seems more expedient to have an outside auditor.

Trustee Crean asked: Could someone from Cullen & Danowski fill that role?

Chris Reno stated: No. It is an independence issue, as far as that goes. It cannot be your claims auditor and also your external auditor for your financial statement because you are ultimately responsible for these claims. I will look into the specifics, if everybody really has to sign off. I know some places, like one of our fire districts, each of the commissioners sign off. I know another place who has assigned one trustee who has a finance background who acts as the claims auditor without getting any compensation for it and that sufficed. Let me look into that a little bit to see if there are other options out there before we start hiring another person and incurring more costs. It is not a requirement by law, but it is the responsibility of the Board to oversee that process. I will try to get more specifics on that. The process is they won't issue the report; they

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come with a draft. And you get to review it, have a response. I will assist you and discuss what the options are.

Mayor Pontieri stated: It is a discussion that has been ongoing; actually since the situation back with Susan Roach.

Trustee Hilton stated: The next question I have is that one of your recommendations was the segregation of duties.

Chris Reino stated: Due to the shift in staff, the Deputy Treasurer has taken on more responsibilities. She is doing a lot of functions within the process now. My understanding is you have another person on staff who is working for her certification and will move into another position which will help segregate those duties going forward.

Deputy Treasurer Monte stated: Emily Gatti is taking the exam she needs to take so we are awaiting on Civil Service. The hope is that she will move into the Senior position that Susan held and then we will hire an Account Clerk to fill Emily's position. And that will get us back to the way the staff was so we can segregate things a little more in our office.

Trustee Hilton stated: It is kind of scary when I think of Sue, was that during the current year audit we know that the Deputy Treasurer can create and approve purchase orders, adjust budget lines, software program, print and sign checks and also performs the bank reconciliations.

Deputy Treasurer Monte stated: We have to try and offset all those things that I am doing now. Ron reviews all the bank recs and signs off on the math and he looks at every single check that goes through. We are trying to do the best we can to cover ourselves until the office is back to full staff.

Chris Reino stated: This is under mitigating controls which is okay. We are dealing with a village that only has a staff of two, a clerk and a treasurer. The treasurer is doing pretty much everything. As long as there is some kind of review, there are some mitigating controls.

Village Clerk Seal stated: I have also implemented as a recommendation that I review the payroll. I independently take 10 or 15 checks and make sure the check reflects what it is and that there is no disparity in place. This was not in place when we had the incident with Sue.

Trustee McGiff asked: Just one thing, in these prior year comments are there any thing in place or recommendations about the policies on travel, internet and credit cards?

Mayor Pontieri stated: We will be getting them from other villages. My wife who works for the Southampton School District will be giving us some of their policies and I will be giving them out to everybody.

Trustee McGiff asked: What does internet charges mean?

Deputy Treasurer Monte stated: We don't have an internet policy about what is the proper use of your work computer. So, the State would like to see something written. In other words you can't buy clothes on it or shop.

Village Attorney stated: I can circulate what I have from the Board of the Village of East Hampton.

Chris Reino stated: There is a situation from another village that shall remain nameless, but one of the persons was using Match.com. There should be a formal policy in place.

Deputy Village Monte stated: All those social networks have been blocked, Face book.

Mayor Pontieri stated: Steve had asked for a listing of everybody who has credit cards.

Trustee McGiff asked: Who has the Exon card?

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Deputy Treasurer Monte stated: The Exon cards are kept here. They are only given out if someone is going away or if the pumps go down at DPW.

Trustee Devlin asked: There is a Staples Card as well?

Deputy Treasurer Monte stated: It is not a credit card. It just gives us the tax exempt status.

Trustee Hilton stated: Out of curiosity, on page 16 of the financial statement under General Fixed Assets, under Buildings, did we acquire property.

Chris Reino stated: No. What that is is building improvements in there. It could be construction in progress at the sewer plant and the Halcyon Manor as well. You have your capital projects fund and within that this year you had your nine million dollar expenditure—an 8.2 million dollars in expenditures. And a review of those expenditures a lot of that is going to be related to a building or plant improvement. So we picked that up as construction in progress until the buildings are finalized at that point. That is what that increase is there and I have specific detail and have kept track of fixed assets as well.

Trustee Crean stated: On that same page is an item, number 4, that says mortgages receivable. It says the Village is holding a subordinate mortgage in the amount of \$150,000 which is due on December 10, 2039. That mortgage bears no interest. And it is secured by an interest in real property. What sort of policies or safeguards can we implement to make sure that there is a review of us issuing mortgages or loans to private or non-for-profit entities?

Chris Reino stated: That is interesting because the way we came across this was through a confirmation from Artspace as far as having _____ Basically, when these agreements are going into place they should be part of the Board minutes—go before the Board.

Trustee Crean asked: So that is a decision that should be done by the Board of Trustees?

Chris Reino stated: I checked with Brian on this as far as the legality of it and I have done my own research on it as far as it goes. The background of this mortgage was to assist Artspace in financing some of the closing costs that were unanticipated. I read through the mortgage—I can get you copies if you don't have it—all of the details are there. The only issue the Village would have as far as exposure as far as this transaction goes includes it is more considered a donation as opposed to betterment of the Village. That is the fine line that it could be an issue as far as us as external owners go. I believe that the Artspace is supposed to be helping to assist and enhance the Village community. That was the only concern that we had as far as this transaction goes.

Trustee Crean stated: Just to safeguard the decision that is made in that process, so that it is not done by an individual as opposed to by a collection of elected officials. I think that it would be a more proper way to do that. You say it is a fine line, yes, and for the betterment of the Village and we all agree about that. We are not questioning the economic benefits of what this project may bring to the Village, but the actual decision that is made and how that is made. How can we safeguard against that happening in the future. What would you suggest about that?

Chris Reino stated: Maybe some kind of Board policy that is in place that any loan agreements have to go through the Board. I would recommend it that if I was aware before this action transpired that it should go before the Board, be presented. I am not sure of the specifics of how this came about because I discovered it after the fact, after the mortgage was executed.

Trustee Crean stated: We kind of all did that.

Village Treasurer Krawczyk asked: Wasn't it approved at a Board meeting subsequently?

Mayor Pontieri stated: Yes. But, it was farther down the road. And that is what Gerry is saying; he would prefer to have it brought to the Board prior to it being issued.

Village Treasurer Krawczyk stated: So put a policy in place.

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Chris Reino stated: It is a lien on the real property. The County has a lien before you and there are some other government entities, there is a list which I can provide so you can see the pecking order as far as this goes. The agreement says 30 years with no interest and at that time the mortgage becomes due. What we did as far as a conservative approach is that we need to disclose this; we need to have this on the books. So, we put it in the general fund as a mortgage receivable long term and as deferred revenue. If and when the collection occurs then we recognize miscellaneous revenue for the \$150,000 for reimbursement of those expenditures that were incurred last year.

Trustee Crean stated: So, there were in fact expenditures that were incurred?

Chris Reino stated: That is why it would not have gotten picked up because there was no technical loan transaction; there is no cash trail to this transaction which would have been detected. All there were was closing costs to this project. It would not stand out that there was a check from the Village of Patchogue to Artspace.

Village Treasurer Krawczyk stated: There were fees that were owed us and we took a mortgage instead of taking the fees. But we never issued a check.

Trustee McGiff asked: Is there any breakdown as to what those fees were?

Trustee Devlin stated: Sewer, building fees; we all got the list.

Chris Reino stated: In my office I have a scan of the full complete mortgage and can e-mail it to Annie and forward it to you.

Mayor Pontieri asked: What kind of condition are we in financially?

Chris Reino stated: You have been progressing in a positive way. What happens you have excess monies that are not identified for anything? It is your fund reserve, unappropriated fund balance, which has not been dedicated to next year's budget or anything like that. So it is like a cushion, your reserve. There are a lot of villages and school districts out there right now which are getting into a scenario where there is a growing concern because their surplus is being depleted, not being able to raise taxes and funding too much of their fund balance to next year. The Village right now is 3.2 million surplus; you can see that on page 4 the first column. It is the unreserved undesignated which \$3,211,126. I believe the reason for the increase from last year's is because if you look on page in the back, you see your budgeted amount of revenues what actually came was \$600,000 more. As I mentioned the last time I was here, with the controlled spending you were under budget by about 200 and change. The specifics start on page 20 of the report. On page 21, your actual revenues came in 661 thousand higher. On page 25, you under spent your budget by a little over \$200,000. Personally, I would say you guys are in good financial position considering what is going on nowadays.

Village Treasurer Krawczyk stated: We promised our bonding agency, S&P Agency, that we would have at least a 15-20% surplus. We have over 30%. That goes a long way with our financial status as far as they are concerned. Down the road if we want to borrow it keeps our costs down.

Chris Reino stated: There is no set legal limit as far as how much the Village can retain. With school districts 4% of next year's budget that they are allowed to retain. Villages don't have that restriction. In talking with the controller office, they cannot give you a definitive answer. They just say it is based on each Village as needed as to how much they can retain. You are in a healthy situation. You are roughly a ten million dollar budget.

Trustee McGiff stated: You made certain recommendation on this. One thing I was wondering was the it says recently the Village installed a new electronic system. Do you know when that was set up?

Village Clerk Seal stated: Two years ago, give or take maybe.

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Chris Reino stated: When we came in to do our audit, we understood that the whole system changed and wanted to look at that system. When we looked we found an area where there could be some improvements. That is why you get the recommendation about trying to attach the fuel usage to the card because the card could be taken out of that vehicle.

Trustee Crean stated: I guess that is something we need to discuss—about how would we attach the card to the actual vehicle and not to the user.

Trustee Hilton stated: It would be very easy to track that; it would be simple math. We just need some basic software to figure out the gas mileage of that car; as soon as you saw a difference of two or three miles per gallon in an authorized vehicle.

Chris Reino stated: Fuel usage on the card vs. mileage on the vehicle. As long as those two are reconciled together then you have the comfort that it is being used.

Trustee McGiff asked: Are they being reconciled now?

Chris Reino stated: No.

Trustee Hilton stated: It is probably a function of software that controls that.

Deputy Treasurer Monte stated: I think what our thought is that what we are going to do is we purchase X amount of gallons of gas in a month. And I run the reports monthly by gas and diesel. Our first thought is that we should be comparing what we have purchased for the month in gas to make sure that what is coming out in reports for the month matches up relatively the same. That we are not buying X amount of gas and pumping Y out of the tank, or vice versa. Each report I can run any way I want as far as vehicle or pumper, person who actually puts it. There are two codes. There is a key for every vehicle that has been coded to that vehicle and then the individual who pumps the gas puts their four digit number in. So, you put your four digit number in and then you put your vehicle key into the pump. It is a black, like electronic key. The pump only operates when both pieces are in. And you have to put the odometer in and the machine itself knows what the last reading was. And I would assume that if someone puts in zero that the pump would not pump.

Trustee Devlin stated: That would seem to limit someone else's ability to use it.

Chris Reino stated: The employee who uses that vehicle and knows the mileage, there is a whole other system where he could take his car there three hours later and just go to the next level, add another 20 gallons and no one would notice it was stolen.

Village Attorney Egan stated: But, he would have to use his individual key. The County uses the same system of dual key. Where the key to the vehicle, because the personnel is not always assigned the same vehicle and is also given an individual key; they will see if the individual's key is being abused pretty clear.

Deputy Treasurer Monte stated: There is a black key for every vehicle. I have a listing in my office of what keys goes with what vehicles. And I have a listing of the four digit number.

Trustee Crean stated: There was something on the dials when we walked up, addressed to the Mayor and the Board from Debra Newham.

Village Clerk Seal read: "To the Mayor and Village Board from Debra Newham, Senior Court Clerk. I have reviewed with Justice McGuire a draft report he obtained that was prepared by outside auditors for the Village of Patchogue. Part of that draft report addressed the Village Justice Court. Upon review of that draft, which is being submitted today for Village Board approval, I submit this memorandum to clear up an inaccuracy in the report. The report indicates that the Justice Court bank reconciliations did not have any evidence of being reviewed by management. This is inaccurate. Justice McGuire and the Acting Justice have been reviewing my work on bank reconciliations since the time I became the senior Court Clerk in November, 003. Since that time, Justice McGuire has required me to submit each monthly bank statement, along with my reconciliation, for his review, at the end of each and every month. The Acting

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Justice's bank statements are also given to them for review as part of this procedure. On the recommendation of the Village auditors last year, Justice McGuire and the Acting Justice began signing those bank statements, upon completion of their review. Prior to that, although not signed they were reviewed and check marked to reflect that the bank statements and my reconciliation coincided. As I take great pride in the job done in this office, I hope this clears up any confusion and ask that the draft audit report be amended to reflect this information."

Chris Reino stated: If you read this carefully it does say that looking at it there was no evidence that it was being reviewed. So, if trouble comes in and they look at it and she swears up and down that it has been reviewed but there is no sign off. They will not allow that and say it has not been reviewed. So we say during our prior year's audit we noted that the Justice Court bank reconciliation did not have any evidence that the bank reconciliation was being reviewed by management. Then we say in our last sentence, during the current year audit we noted that the bank reconciliations are now being reviewed by the justices which is exactly what she is saying. We did address that, so there is nothing that is changed because it does reflect what she is saying. And I wasn't even aware of that.

Trustee McGiff asked: Is there any kind of policy where two signatures have to be on checks that is over a certain amount?

Village Treasurer Krawczyk stated: There is a policy, but not a regulation. Normally it is \$5,000.

Upon a motion made by Trustee Krieger, seconded by Trustee Hilton, and unanimously carried, the Board accepted the Audit Report as presented.

Trustee McGiff asked: When are we going to have the recommendations/guidelines?

Village Attorney Egan stated: As I see it now, we need we need a travel reimbursement conference policy, an internet computer use policy, a credit card policy, and a use of vehicle fuel policy.

Trustee Krieger stated: For the record, I am here today on personal time approved by the Supervisor's Office.

Village Clerk Seal read: This came from Trustee Keyes yesterday. "There is a good chance that I will be unable to attend tomorrow's meeting regarding the Cullen and Danowski audit. I did read the audit and hereby approve it.

Upon a motion made by Trustee Cream, seconded by Trustee Devlin, and unanimously carried, the meeting was adjourned at 10:30 a.m.

Signed _____
Patricia M. Seal, Village Clerk

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