



# Village of Altamont

## Board Oversight

### Report of Examination

Period Covered:

June 1, 2010 — August 31, 2011

2011M-261



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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

February 2012

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Village Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Village of Altamont, entitled Board Oversight. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## **Background**

The Village of Altamont (Village) is located in the Town of Guilderland, Albany County, and has a population of approximately 1,720 residents. The Village is governed by a Board of Trustees (Board) which comprises a Mayor and four Trustees, all of whom are elected for four-year terms. The Board is responsible for the general oversight of the Village's operations. The Mayor, who is a member of the Board, is the chief executive officer. The Treasurer is the chief fiscal officer and is responsible for the custody of Village moneys, maintaining appropriate accounting records, and preparing interim and annual financial reports. Although the Board is primarily responsible for the effectiveness and proper functioning of the Village's internal controls, the Mayor and Treasurer also share the responsibility for ensuring that internal controls are adequate and functioning properly.

The Village's general, water, and sewer funds' total budgeted appropriations for the 2011-12 fiscal year were approximately \$1.9 million, funded primarily with real property taxes, water and sewer charges, and State aid. The Village provides various services to its residents, including law enforcement, fire protection, street maintenance, snow removal, street lighting, water, sewer, and general government support. The majority of the expenditures incurred in providing these services are accounted for in the general, water, and sewer funds.

## **Objective**

The objective of our audit was to review the Village's Board oversight. Our audit addressed the following related question:

- Did the Board adequately monitor fiscal operations to help ensure the accuracy of Village records and reports?

## **Scope and Methodology**

We examined Board oversight of the Village of Altamont for the period June 1, 2010 to August 31, 2011.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). 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**

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk's office.

# Board Oversight

The Board is responsible for managing and overseeing the Village's overall fiscal affairs and safeguarding its resources. This responsibility includes establishing a system of internal controls to provide reasonable assurance that cash and other resources are properly safeguarded. It is therefore important for the Board to establish adequate policies and procedures, institute appropriate internal controls over the Treasurer's duties, perform annual audits, and monitor budgets throughout the year.

We found that the Board could improve its monitoring of fiscal operations. Specifically, the Board did not adopt policies establishing responsibilities and duties for officials and employees involved with maintaining accounting records, segregate the Treasurer's duties, conduct annual audits, or adequately monitor actual results of operations against budget estimates. As a result, there is an increased risk that errors and irregularities may occur, and the Board's ability to monitor financial operations is diminished.

## **Policies and Procedures**

Written policies are a key component of an organization's internal control environment, as they formally establish and communicate to staff the manner in which to conduct day-to-day operations of the organization. Written policies can also provide the Board with an effective means of ensuring that financial objectives are being met. It is important for the Board to develop written policies for finance-related areas.<sup>1</sup> Village officials are also responsible for developing written procedures to implement the Board-adopted policies.

The Board has not adopted policies establishing responsibilities and duties for officials and employees involved with maintaining accounting records. Further, the Village lacked an investment policy, as required by GML; however, such a policy was adopted by the Board October 4, 2011.<sup>2</sup> Without proper policies or procedures, Village officials and employees do not have clear guidelines on performing their duties, and there is an increased risk that errors and irregularities may occur.

## **Segregation of Duties**

An effective system of internal controls provides for the segregation of duties so that no one individual controls all phases of a transaction. Specifically, it is important that one person does not have the ability

<sup>1</sup> These may include policies for cash management, payroll and personal services, claims processing, travel, and computer use.

<sup>2</sup> Subsequent to our on-site field work

to authorize, execute, and record a transaction or control the entire cash receipt and disbursement function. Proper segregation of duties aids in the prevention and detection of errors and fraudulent activity in a timely manner. When sufficient segregation of duties is not possible, it is imperative that the Board provide sufficient oversight by implementing compensating controls.

A lack of segregation of duties exists within the Treasurer's Office. The Treasurer receives, records, and deposits cash, records disbursements, prepares abstracts, signs checks, and reconciles bank accounts. The Board has not instituted sufficient compensating controls to help mitigate this weakness and/or otherwise provide meaningful guidance for the Village's financial activities. For example, there is no independent review of bank statements, reconciliations or the cash disbursements journal.

In addition, officials could promote improved accountability by using built-in controls within its computerized financial system to uniquely identify users. However, we found that the three users of the system use the same account and password to access the system.

Concentrating key duties (i.e., recordkeeping, preparing checks and reconciling cash) with one individual weakens internal controls and significantly increases the risk. For example, improper checks could be written, concealed with a journal entry, and not detected. Additionally, when users share accounts, accountability is diminished and transactions cannot be traced back to a single user.

## **Annual Audit**

According to Village Law, the Board must audit, or cause to be audited, the Treasurer's annual financial report and supporting records. Such annual accounting to, and examination by, the Board provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Village's fiscal procedures. An annual audit is especially important when there is a limited segregation of duties. Indications that an audit was performed should be entered in the Board's minutes.

The Treasurer's annual financial report and supporting records were not audited, or caused to be audited, by the Board. Specifically, while the Treasurer stated that she provides the Board with the annual financial report and encourages them to review it along with her records, there was no evidence that a Board audit was performed. The lack of an annual audit increases the risk that errors and irregularities could occur and remain undetected and uncorrected.

## **Budget Oversight**

The Board's role in overseeing financial condition is of particular importance. Village officials must be vigilant in monitoring year-to-date revenues and expenditures against corresponding budgetary estimates. Such monitoring can be performed through the use of budget status reports provided to the Board and other decision makers. In meeting its oversight responsibilities, the Board should review budgetary status reports, ask questions about revenues and expenditures not meeting budgetary expectations, and ensure corrective action or budget amendments are implemented before financial condition is negatively affected, consistent with the scope of its authority.

The Board did not receive interim reports to monitor actual results of operations against budget estimates during the year. However, we found that monitoring was performed at a departmental level and requests for necessary budget modifications were provided to the Board on a monthly basis for approval. Although our reviews discovered only minor discrepancies which were discussed with Village officials, this lack of oversight diminishes the Board's ability to monitor financial operations and could result in the Board's failure to detect fraud, waste, and abuse.

## **Recommendations**

1. The Board should adopt written policies establishing responsibilities and duties for officials and employees involved with finance-related activities.
2. The Board should review the duties of the Treasurer and implement procedures to compensate for the lack of segregation of duties.
3. Village officials and employees should ensure that unique user accounts and passwords are created for each user of the Village's computerized financial system.
4. The Board should audit, or cause to be audited, the records and reports of the Treasurer on an annual basis, as required.
5. The Board should monitor actual results of operations against budget estimates throughout the fiscal year.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

The local officials' response to this audit can be found on the following pages.

## VILLAGE OF ALTAMONT

115 Main Street PO Box 643 Altamont, New York 12009  
Phone (518) 861-8554 Fax (518) 861-5379

### Mayor

**James M. Gaughan**  
Patty Blackwood, Clerk  
Catherine Hasbrouck, Treasurer

William F. Aylward, Trustee  
Kerry Dineen, Trustee  
Christine Marshall, Trustee  
Dean Whalen, Trustee

January 31, 2012

Office of State Comptroller  
Division of Local Government  
Attn: Jeffrey P. Leonard, Chief Examiner  
One Board Street Plaza  
Glens Falls, NY 12801-4396

Re: Local Response to Village of Altamont Audit, 2011M-261

Dear Mr. Leonard:

New York State's Office of the State Comptroller's 2011-12 audit of the Village of Altamont comprehensively reviewed the Village fiscal operations. The assigned auditor interviewed Village officials and employees to obtain an understanding of internal controls; and reviewed various records and reports including general ledgers, budgets, balance sheets, bank statements, and other supporting documentation in order to ensure that annual financial reports were complete, were supported by accounting records, and were filed in a timely manner.

The Village of Altamont is pleased that the Comptroller's investigation to determine the adequacy of its internal controls found no major deficiencies with the Village operation of its financial condition, accounting system, cash management, cash receipts and disbursements, purchasing, claims processing, payroll, user charges, real property taxes, justice court, and information technology.

The Village of Altamont will address improving Board oversight, the sole area highlighted for improvement. For each recommendation included in the audit report, the following has already taken place or is proposed for future actions.

*Recommendation # 1 The Board should adopt written policies establishing responsibilities and duties for officials and employees involved with finance-related activities.*

As an elected legislative body, it is the responsibility of the Board of Trustees to establish and oversee the policy, financial, and ethical framework for its local government operation. Through its policies, the governing board outlines the direction for its government activities, especially those related to fiscal oversight. It also needs to monitor its fiscal operations, and conduct periodic checks on its practice in light of established policies. Where necessary, the governing board should update, develop and formally adopt policies that establish control procedures and other requirements for daily financial operation.

The Board will review its current key fiscal oversight policies required by law, including its code of ethics and procurement policies. The Board adopted an investment policy on October 4, 2011, as is noted in the body of

the report. Other policies which will be included in the initial review include policies not mandated by law but ones which guide operations and provide staff with specific guidance so they may carry out municipal functions and understand their responsibilities and duties. These areas will include travel and conferencing reimbursements, credit card use, computer use and cell phone use policies. The review process will use the "New York State Comptroller's Management Guide, Fiscal Oversight Responsibilities of the Governing Board" as its main resource and guide. The Chief Fiscal Officer (Treasurer) will be responsible for the process for the governing board and the process of review and development is projected to be fully completed by May 2013. The Chief Executive Officer (Mayor), Treasurer, and department heads will assist the Board in reviewing, updating or developing the content of these policies.

Recommendation # 2 *The Board should review the duties of the Treasurer and implement procedures to compensate for the lack of segregation of duties*

The Village of Altamont is very small and the separation of duties is very difficult to achieve. However, the Village of Altamont acknowledges that one person performing key functions may not be adequate. Village staff will implement efforts to increase oversight of Treasurer's records. Although the Village Clerk and Administrative Assistant do not have access to the Accounting program for security purposes, the following changes will take place:

In order to improve cash controls, the Village Clerk will verify the bank reconciliation monthly. Monthly Abstracts also will be reviewed by the Village Clerk. The Village Board will receive monthly reports including receipts, revenues, disbursements, expenditures and balance sheets. Village Board members regularly should compare actual results to expenditures, as well as compare outcomes to approved plans, policies and directives.

These procedures will be in place by June 2012. The Treasurer, in consort with the Village Clerk, will be responsible for the implementation of these procedures.

Recommendation # 3 *Village officials and employees should ensure that unique user accounts and passwords are created for each user of the Village's computerized financial system*

All users of common finance software have individual passwords as of January 17, 2012.

Recommendation # 4 *The Board should audit, or cause to be audited, the records and reports of the Treasurer on an annual basis, as required.*

In accordance with Village Law Section 4-408(e), the Village Board of Trustees will put in place an audit which will be performed by the Village Board annually. The requirement that will be placed on the Board of Trustees to monitor the treasurer's annual report and supporting records is similar to the requirement already in place to review the financial records of the justice court mandated by the Uniform Court Act Section 2019-1.

Board oversight is particularly important in a smaller municipality which may not have an adequate system of controls because employees are required to perform duties that cannot be optimally segregated. In these cases, the governing board should become more involved to help ensure that sufficient control is being maintained over the fiscal operations. An annual audit is a critical step in the oversight process and is very appropriate for a small government structure like Altamont's.

A Village Board yearly audit will adjudge formally whether the financial records are complete and up-to-date; transactions are recorded properly; and required reports are made timely and accurately. In order to achieve this goal, a checklist will be

developed and modeled after those in "Comptroller's Module on Fiscal Responsibilities for Local Officials." The checklist will help guide officials in judging the condition and accuracy of the records being reviewed; determining accountability; and reporting responsibilities to staff. The review results will be presented at a Board meeting annually, and entered into the minutes. The completed checklist will be kept on file with the clerk of the board.

The checklist will be developed and used beginning fiscal year 2012-13. The Treasurer will be responsible for developing the annual checklist, with the assistance of the mayor.

Recommendation # 5: *The Board should monitor actual results of operations against budget estimates throughout the fiscal year.*

After the budget is enacted, it is the responsibility of Altamont's department heads and other municipal officials to see to it that sufficient resources are available and that needed services are provided within budget parameters. To meet these objectives, the treasurer and department heads regularly monitor actual revenues and expenditures and report these figures to the treasurer. Although these year-to-date figures are compared to budgeted amounts by the treasurer, the Board of trustees can and should be more actively involved in the oversight function.

The Village Board regularly reviews voucher requisitions for expenditures and at least three Board members must sign off on the proposed expenditure before payments are made. Since December 2011, the Village Board has been provided monthly reports including revenues, disbursements, expenditures and balance sheets. Village Board members compare actual results to expenditures, and are expected to compare outcomes to approved plans, policies and directives.

The Board is expected to review these monthly reports, ask questions about revenues and expenditures not meeting budget expectations, and ensure that corrective action or budget amendments are implemented before the Village's financial condition is negatively affected, consistent with its authority.

These procedures are already in place. The chief financial officer, in consort with the Village clerk, and the Village's governing Board are responsible for the continued implementation of these procedures.

Finally, the Village of Altamont would appreciate that the NYS Comptroller's Final Audit Report acknowledges that the municipality intends to improve its financial oversight processes where appropriate. We especially would appreciate that the Report note in its summary those recommendations which have already been addressed or completed.

Sincerely,



James M. Gaughan  
Mayor

Cc: Board of Trustees  
Patricia Blackwood, Village Clerk  
Catherine Hasbrouck, Treasurer

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets. In order to accomplish this, we performed an initial assessment of Village operations so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, control environment, accounting system, cash management, cash receipts and disbursements, purchasing, claims processing, payroll, user charges, real property taxes, justice court, information technology, and Board oversight.

During the initial assessment, we interviewed Village officials and employees, performed limited tests of transactions, and reviewed pertinent documents such as adopted policies and procedures, Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for inherent control risks. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected Board oversight for further audit testing.

To accomplish our audit objective, we interviewed Village officials and employees to obtain an understanding of internal controls. We reviewed various records and reports including general ledgers, budgets, balance sheets, bank statements, and other supporting documentation to ensure that annual financial reports were complete, supported by accounting records, and filed timely. We also analyzed Board packets<sup>3</sup> to identify information received by the Board.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>3</sup> These included information such as internal memos, requests for water/sewer connections, taxpayer letters, tentative contractual agreements, etc.

## APPENDIX C

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