



Village of Bloomingburg Clerk-Treasurer's Duties

Report of Examination

Period Covered:

June 1, 2009 — March 18, 2011

2011M-188



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
CLERK-TREASURER’S DUTIES	5
Recommendations	7
APPENDIX A Response From Local Officials	8
APPENDIX B Audit Methodology and Standards	12
APPENDIX C How to Obtain Additional Copies of the Report	14
APPENDIX D Local Regional Office Listing	15

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 Bloomingburg, entitled Clerk-Treasurer's Duties. 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 Bloomingburg (Village) is located in the Town of Mamakating in Sullivan County, and serves 420 residents. The Village is governed by an elected Board of Trustees (Board) which is composed of a Mayor and two Trustees, all of whom are elected for two-year terms.

The Board is responsible for the general oversight of the Village's operations. The Mayor is the chief executive officer, and is responsible for the day-to-day operations of the village, while the Clerk-Treasurer's responsibilities, as chief financial officer, are focused completely on the financial operations. The Board also appointed a part-time deputy Clerk-Treasurer. An accountant processes payroll and prepares financial statements, while another vendor provides billing services for real property taxes and sewer services.

The Village provides a variety of services to the community including sewer services and general government support. The Village's 2010-11 general fund budget was approximately \$153,700 and was funded primarily by real property taxes and State aid. The 2010-11 sewer fund budgeted appropriations was approximately \$94,700 and was funded primarily by sewer rents.

Objective

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

- Did the Mayor and Trustees provide appropriate oversight of the Clerk-Treasurer?

Scope and Methodology

We examined the Clerk-Treasurer's duties for the period June 1, 2009 to March 18, 2011. This included the Mayor and Trustees' oversight of these duties.

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-Treasurer's office.

Clerk-Treasurer's Duties

The Clerk-Treasurer is responsible for all financial duties including collecting moneys, disbursing moneys and maintaining and reconciling the accounting records. She is also responsible for oversight of the billing for real property taxes and sewer services, and for payroll, each performed by a third party.

The Mayor and Trustees are responsible for setting the overall course of the Village and for monitoring its financial operations. This includes ensuring that the Clerk-Treasurer verifies the billing and payroll work performed by third parties under her supervision. The Board's oversight becomes particularly important in smaller operations, such as the Village of Bloomingburg, where staffing limits the ability to properly segregate the key financial duties of receiving and disbursing cash, maintaining the accounting records, and reconciling bank statements. In such instances, it is important that the Board require the Clerk-Treasurer to furnish monthly reports with sufficient details of financial activities, and to conduct an annual audit of the Clerk-Treasurer's records and reports as required by law.

The Mayor and Trustees did not provide adequate oversight over the Clerk-Treasurer. They did not ensure that the Clerk-Treasurer verified the billing and payroll work performed by third parties. In addition, the Clerk-Treasurer performed all the financial duties with little oversight of those duties. Finally, the Board did not provide for an annual audit of her records and reports as required by law. As a result, one employee was underpaid by \$500, the Village may have failed to bill and collect sewer rents in excess of \$7,700, and there is an increased risk that mistakes or misdeeds could occur without detection.

Payroll Processing— The Clerk-Treasurer does not consistently verify the work performed by the accountant. The accountant processes payroll based on the annual budgeted salaries and the hours worked for the one hourly employee as reported by the Clerk-Treasurer. Although the Clerk-Treasurer told us she verifies the gross amounts paid to employees, we found the wrong salary was inadvertently used for one of the employees. As a result, the employee was paid \$500 less than the annual salary the Board had authorized. This difference was not detected and corrected by the Clerk-Treasurer. After we informed the Clerk-Treasurer of this discrepancy, she paid the employee \$500 owed to him.

Real Property Taxes and Sewer Billing — The Clerk-Treasurer does not consistently verify the work performed by the vendor. The

vendor prepares the bills based on the tax roll provided by the Town¹ and the adopted tax levy, and the sewer points list² provided by the Clerk-Treasurer. All of the residents are billed for real property taxes and sewer rents on a single bill (bills). Although she was able to detect and correct a billing error for the 2011 fiscal year, she did not correct an error of \$7,747 that occurred in the prior year. The Board intended to raise \$92,175 for the sewer fund, calculated as the sum of the specific charges calculated for each property; however, the total of the individual sewer rent bills sent to Village residents amounted to only \$84,428. The Clerk-Treasurer was not aware of the difference, and therefore did not identify the cause and correct the calculations.

Cash Receipts and Disbursements — The Clerk-Treasurer performs all duties relating to both receiving³ and disbursing money, and recording those activities. She also reconciles the cash balances in the accounting records with the adjusted bank balances on a monthly basis. No one oversees her performance of these duties. While the Board audits claims she presents prior to their payment and she reports the amounts collected and disbursed for each month to the Board by each appropriation account charged, these alone do not provide sufficient oversight because they lack details showing specific disbursement activity that could be compared against payments approved by the Board. Although we found only minor exceptions, the Clerk-Treasurer's complete control over cash receipt and disbursement duties creates a significant risk that errors or irregularities could occur and remain undetected and uncorrected. For instance, moneys may be collected but not recorded and deposited, or moneys could be disbursed for purposes other than authorized by the Board.

Annual Audit — The Board did not audit, or cause to be audited, the Clerk-Treasurer's records and reports. The Board believed that the accountant who prepared the annual financial report for the Village provided sufficient oversight. However, the accountant told us that although they verified cash balances, they only performed a review and compilation of the financial information provided by the Clerk-Treasurer. This does not, for example, involve the review of individual transactions or supporting documentation to gain assurance that the presentation is appropriate and supported, and does not follow the requirements under generally accepted government auditing standards (GAGAS). As such, the accountant does not represent that the work provides the same level of assurances as an audit.

¹ The Town is responsible for the assessment function of the Village.

² The sewer points list shows the properties that get sewer service and the amount to be charged. The points are based on occupancy and type of establishment. Information includes the Tax ID number, and the number of sewer points to be used in the calculation for each property.

³ The Deputy Clerk-Treasurer assists the Clerk-Treasurer in collecting cash at the Village Hall.

No Village official verifies that billings for real property taxes and sewer services are complete or accurate, that correct payroll amounts are paid, that moneys collected are deposited in a timely manner or that all disbursements are accurate and for Village purposes. As a result, no one can be sure that Village money is properly accounted for. The failure of the Trustees to annually audit the Clerk-Treasurer's records and reports only heightens the risk that mistakes or misdeeds may occur without detection and correction.

Recommendations

1. The Mayor and the Trustees should ensure that the Clerk-Treasurer verifies the work performed by the third parties providing payroll and billing services to ensure their calculations are accurate and in accordance with amounts approved by the Board.
2. The Clerk-Treasurer should investigate the 2009-10 sewer rent billing difference to determine why the residents were not billed correctly, and should collect all moneys due to the Village.
3. The Mayor and Trustees should require the Clerk-Treasurer to provide them with detailed information to be able to determine that all moneys are accounted for. This could include such things as, details showing specific disbursement activity that could be compared against payments approved by the Board.
4. The Trustees should annually audit, or cause to be audited, the Clerk-Treasurer's records and reports.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

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March 28, 2012

H. Todd Eames, Chief Examiner
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Re: Report of Examination 2011M-188

Dear Mr. Eames:

Please allow this letter to serve as the Village's response and corrective action plan for the Report of Examination from the New York State Comptroller's Office for the period of June 1, 2009 to March 18, 2011. The auditor lists a number of issues with the Clerk-Treasurer duties. I will address each item individually.

Comment-Payroll Processing: The Report indicates that the Village Clerk does not consistently verify the work performed by the outside accounting firm with regards to payroll processing. The report found that a Village employee was paid \$500.00 less than the budgeted amount for the year. A copy of the budget is given to the accounting firm whenever there is a change in salary. All appropriation transfers for withholdings are done by the auditing company at the end of the fiscal year.

Village of Bloomingburg's Response and Corrective Action Plan: The Village Clerk now maintains a disbursement journal, recording the payroll and withholding amounts each month. The \$500 shortfall has been paid to the employee.

Comment-Real Property Taxes and Sewer Billing: The Report indicates that the Village Clerk does not consistently verify the work performed by an outside vendor for tax bill preparation. The Village of Bloomingburg uses the

Town of Mamakating assessing unit, therefore the Village Clerk calls the Town Assessor for the assessed evaluation figures. The tax bills are then ordered by this assessment. The points for the sewer billing are calculated by a classification of each property (single family, one bedroom, commercial etc.), and a listing of the properties and the assigned points are given to the vendor when the tax bills are ordered, unless there are no changes to the list. The 2009-10 tax bills were ordered on April 24, 2009 and received May 31, 2009. Bills were mailed out on June 1, 2009 to provide the property owners adequate time to pay. After mailing the tax bills, a review indicated that the assessed evaluation was different than the figure obtained from the assessor and the vendor had assessed \$174 per point instead of \$194 for the sewer billing. The difference in the assessment was due to discounts being given to properties in the town that didn't apply in the Village. (aged discounts etc.) This caused a decrease in revenues for the 2009-10 fiscal year. The following year the Clerk reviewed all tax bills prior to mailing and found errors made by the vendor that caused properties to be overbilled. This forced the Clerk to refigure each tax bill and issue refunds to some tax payers at the time of payment.

Village of Bloomingburg's Response and Corrective Action Plan: The Village Clerk now telephones the vendor and verifies all figures prior to ordering the tax bills. The Village Clerk also checks each tax bill prior to mailing. The error in the billing of the 2009-10 sewer rents was evenly distributed to each taxpayer as the points were assessed \$174 rather than \$194. The Village Board did not spend the uncollected funds, and therefore, the Village Board does not feel that they need to re-bill the 2009-10 sewer users.

Comment-Cash Receipts and Disbursements: The Report indicates that the Village Clerk performs all duties relating to both receiving and disbursing money, and recording those activities. She also reconciles the balances in the accounts. While the Board audits the claims presented, the report states that this is not sufficient oversight of the Clerk-Treasurer. The Clerk-Treasurer presents all claims to the Board for payment approval. The vouchers are listed on an abstract by number. Copies of the payroll check stubs are attached in the folder for the month's payroll. The Board receives a detailed treasurer's report giving a total of revenues, expenses and each account (checking, money market etc.) Along with the treasurer's report, the Board receives a three column budget showing the original budget, the

expenses/revenues for the month and the total of each appropriation for the year.

Village of Bloomingburg's Response and Corrective Action Plan: The Board now receives a copy of the bank statements, including cancelled checks. The bank balances are verified and initialed when preparing the treasurer's report. The Clerk-Treasurer also lists the number of the check on each payroll record.

The Village Clerk has always, and continues, to provide detailed monthly reports. However, in light of the New York State Comptroller recommending that she provide additional detail in the reports relating to Cash Receipts and Disbursements, the Village Clerk now includes a copy of the monthly bank statements, which provide the detailed copies of deposits and checks written each month, to the Village Board members.

The Report of Examination indicates that the Village Board did not audit, or cause to audit, the Clerk-Treasurer's records and reports. At the end of each fiscal year the Clerk-Treasurer turns over all of the Village records to the Certified Public Accountant for review and to complete the annual report. Although the certified public accountant stated that an annual audit was not required, the Village Board will require the Clerk-Treasurer's records to be audited each year starting with the 2011-12 fiscal year.

All recommendations made by the auditors were put in place at the time of discussion with the exception of the audit.

Sincerely yours,



Mark Berentsen, Mayor
Village of Bloomingburg

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We interviewed Village officials and employees and reviewed Village minutes, policies and procedures to obtain an understanding of the Village's operations. We also reviewed relevant contracts between the Village and outside vendors. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected payroll, billing, cash receipts and disbursements, and annual auditing for further testing. Our procedures included the following:

- We interviewed Village officials and reviewed payroll records to gain an understanding of controls over payroll.
- We compared the employees listed on the payroll summaries to the minutes to verify all employees were approved by the Board. We also compared all salaries paid for the year ended 2010 to Board approved amounts to determine if employees were paid the correct amount.
- We made inquiries of Village personnel to determine if employee leave records were accurately recorded.
- We observed the accountants files to determine if there were physical controls over confidential employee information that properly secured the information.
- We compared total real property tax and sewer rent bills for the fiscal years ended 2010 and 2011 to the Board approved tax levies and budgeted amounts.
- We selected 20 individual tax and sewer bills, 10 of which were selected based on their connection to Village employees, and 10 were selected by picking every 38th taxpayer from the Village's tax bills. We selected 10 in 2009-10 and 10 in 2010-11. We tested to determine the bills had the proper assessed values, tax rates and sewer rents, and if they were properly footed. We tested those same 20 bills to determine if related payments deposited and recorded in the Clerk-Treasurer's receipts ledgers in a timely and accurate manner.
- We compared the Clerk-Treasurer's summary of uncollected real property taxes and sewer rents for the fiscal year ended 2010 to individual bills not marked as "paid" to determine if any bills were omitted from her list. We also compared the amount of uncollected taxes listed on the Clerk-Treasurer's schedule to our own calculations. Our calculations were obtained by taking the amount billed to customers and subtracting what was recorded as received in the receipts ledgers.
- We judgmentally selected 10 late real property tax and sewer fee payments (those bills paid after June 30 and December 31 in each fiscal year) and tested to determine if the Clerk-Treasurer calculated the correct penalty charge and that she recorded and deposited the transactions in a timely manner.

- We interviewed Village officials and reviewed accounting records and monthly reports to gain an understanding of controls over receipts and disbursements.
- We selected 14 receipts from other municipalities and Village departments, and traced them to the bank statements and to the Clerk-Treasurer's receipts ledger to determine if the Clerk-Treasurer properly deposited and accounted for those receipts.
- We selected nine receipts listed on the Clerk-Treasurer's receipts ledger (all receipts in July 2010 for the general fund and all receipts in July 2009 for sewer fund) and compared them to bank statements to determine the amounts were deposited in a timely manner.
- We selected two wire transfers from each fiscal year (the one in October 2009 and the one in February 2011) both the general and sewer checking accounts (the sewer checking account did not have any wire transfers) to determine if they were appropriate and properly supported by reviewing payroll summaries.
- We tested 100 percent of bank transfers for the audit period from the Village's money market accounts to both the general and sewer checking accounts to determine if the moneys were transferred accurately. All transfers were made by checks from the money market accounts that were deposited into the checking accounts.
- We tested 100 percent of checks for the audit period from the tax collection bank statements (check images) to ensure they were written to a corresponding Village bank account. We selected two of these checks to determine they were deposited into a Village bank account in a timely manner.
- We selected 25 non-payroll disbursements (every 14th check from both the general and sewer funds) from a monthly abstract and traced to the cancelled check images to ensure the vendors, amounts and check numbers agreed.
- We performed a sequence test of all checks for the audit period to ensure all checks were either voided and defaced or listed on monthly abstracts or payroll summary reports. We also scanned bank statements for the audit period for checks made out to the Clerk-Treasurer, verified that there was the proper number of checks, and verified that they matched the amounts on the accountant's payroll summary sheet.
- We reviewed monthly reports and inquired to determine if the Board audited, or caused to be audited, the Clerk-Treasurer's records and reports, as well as review of Board minutes.

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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