



Village of Earlville

Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

June 1, 2009 — May 31, 2010

2011M-235



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 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 Earlville, entitled Internal Controls Over Selected Financial Operations. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Village is governed by an elected Board of Trustees (Board) which comprises a Mayor and four Trustees. The Board is responsible for general oversight of Village operations. The Mayor is the chief executive officer and the Clerk-Treasurer is the Village's chief fiscal officer. The Village's 2009-10 general and water fund budgets totaled \$390,844 and \$103,778.

Scope and Objective

The objective of our audit was to review the Village's internal controls over selected financial operations for the period of June 1, 2009 to May 31, 2010. Our audit addressed the following related questions:

- Did the Village maintain adequate accounting records to properly account for and report its financial operations?
- Were internal controls over the Clerk-Treasurer's cash receipts and disbursements appropriately designed and operating effectively?

Audit Results

The Village does not maintain adequate accounting records. The Clerk-Treasurer does not use double-entry accounting, maintain and reconcile control accounts, or use account numbers and titles as required by the State Comptroller's Uniform System of Accounts. Furthermore, spreadsheets used by the Clerk-Treasurer instead of accounting records do not include descriptions for cash receipts, are not integrated into the accounting system, and do not include audit trails. Because of the lack of adequate accounting records, the Clerk-Treasurer did not file annual financial reports with the State Comptroller since 2006-07, the Board's ability to monitor operations is impaired, and there is an increased risk that errors or irregularities could occur. These deficiencies were caused by the failure of the Board to provide adequate training or oversight. During our audit, the Village hired a consulting firm to revise the accounting records and compile the annual financial reports at an additional cost of \$16,000.

Internal controls over cash receipts and disbursements were also not appropriately designed and operating effectively. The Board did not adopt policies and procedures for collecting real property taxes or water rents, which had revenues of approximately \$192,000 and \$75,000 during 2009-10. The Village had no limit as to the number of times water customers can self-report meter readings and as a result, 38 percent of water customers were being billed based on the Clerk-Treasurer's estimates in July 2009. As a result of internal control weaknesses, taxes collected may not be deposited and water revenues may not be billed and collected. Furthermore, the Clerk-Treasurer's duties were not

adequately segregated, and compensating controls, such as a proper review of bank reconciliations or claims, or the performance of an annual audit, were not performed. The lack of segregation of duties or compensating controls increases the risk that errors can occur and go undetected.

Comments of Local Officials

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. Appendix B includes our comments on the issues raised in the Village's response letter.

Introduction

Background

The Village of Earlville is located in the Town of Sherburne in Chenango County, and the Town of Hamilton in Madison County, and serves approximately 800 residents. The Village is governed by a Board of Trustees (Board) which comprises a Mayor and four Trustees all of whom are elected for a two year term. The Board is responsible for general oversight of Village operations. The Mayor is the chief executive officer and the Clerk-Treasurer is the Village's chief fiscal officer. As the chief fiscal officer, the Clerk-Treasurer is responsible for the custody of Village moneys, maintaining accounting records and preparing annual financial reports.

The Village provides fire protection to its residents and by contract to the Towns of Hamilton, Sherburne and Lebanon. In addition, the Village provides a variety of other services to the community, including: water services, snow removal and brush and leaf pick up. The Village's 2009-10 general fund budget of \$390,844 is funded primarily by real property taxes, revenues from fire protection contracts, and sales tax. The water fund budget of \$103,778 was primarily funded by water rents.

Objective

The objective of our audit was to review the Village's internal controls over selected financial operations. Our audit addressed the following related questions:

- Did the Village maintain adequate accounting records to properly account for and report its financial operations?
- Were internal controls over the Clerk-Treasurer's cash receipts and disbursements appropriately designed and operating effectively?

Scope and Methodology

We examined the records and reports, and cash receipts and disbursements of the Village for the period June 1, 2009 to May 31, 2010. We extended our review to 2006 to determine if annual financial reports were filed.

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 C 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. Appendix B includes our comments on the issues raised in the Village's response letter.

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.

Records and Reports

The Board has the overall responsibility for the management of Village property and finances. Inherent in this responsibility is the need to obtain proper accounting reports. The Board must ensure that reports are accurate and timely by providing training and oversight to ensure the Clerk-Treasurer uses double-entry accounting, and maintains and reconciles all accounts as required. In addition, the accounting system must be integrated and include audit trails to minimize the risk of errors and allow for the investigation of transactions should questions arise as to accuracy.

The Clerk-Treasurer does not use double-entry accounting, maintain and reconcile control accounts, or use account numbers and titles as required by the State Comptroller's Uniform System of Accounts. Furthermore, the spreadsheets used for revenue and expenditure accounts do not include descriptions for cash receipts, and are not integrated into the accounting system or include audit trails. As a result, the Clerk-Treasurer did not maintain sufficient accounting records and did not file required annual financial reports with the State Comptroller's office since 2006-07. These deficiencies were caused by the failure of the Board to provide training or oversight. During our audit, the Village hired a consulting firm to revise the accounting records and compile the annual financial reports at a cost of \$16,000.

Accounting Records

The Board is responsible for ensuring that the Clerk-Treasurer maintains adequate accounting records. The Clerk-Treasurer is required to use double-entry bookkeeping, and prepare general ledgers control accounts for assets, liabilities, revenues, and expenditures. The accounting records must include descriptive information for cash receipts, and use account numbers and account titles in conformance with the Uniform System of Accounts (USA) prescribed by the Office of the State Comptroller (OSC). It is important that the accounting system be integrated so that input does not have to be duplicated and that reconciliations are performed to ensure accuracy. Audit trails must be available to allow for the investigation of financial activity as necessary.

The Clerk-Treasurer uses the Village's accounting software system to print checks and has developed a central recordkeeping process composed of spreadsheets in a separate system. As a result, the Clerk-Treasurer does not use double-entry bookkeeping, or have control accounts for assets and liabilities. The system is also inadequate for the following reasons:

- The Clerk-Treasurer maintains a checkbook register spreadsheet that acts as a cash disbursement journal and cash control account. However, detailed cash receipts including the specific nature, source and amount of each receipt are not entered.
- The Clerk-Treasurer maintains separate spreadsheets for each subsidiary revenue and expenditure account. However, these individual spreadsheets do not have account numbers and the titles are sometimes inaccurate, and therefore do not comply with the USA. For example, a transfer to another bank account was labeled as a debt payment.
- The Clerk-Treasurer's revenue and expenditure spreadsheets are not automatically posted, and they are not integrated into the computer software system which is a proper accounting system. In addition, the spreadsheets lack audit trails.

These deficiencies were caused by the failure of the Board to provide the Clerk-Treasurer with adequate guidance, training, or oversight of financial operations. The Clerk-Treasurer indicated he had no background or experience in accounting.

The Clerk-Treasurer's use of multiple spreadsheets for Village accounting records results in data having to be entered more than once. This is both time consuming and creates a risk that keypunch errors could occur. In addition, there is no assurance that the amounts recorded are correct, there is no clear audit trail between cash collected and cash deposited, and there is no efficient way to investigate transactions should questions arise as to their accuracy. Control deficiencies throughout the process expose the Village to the risk that errors or irregularities could occur and not be detected and corrected in a timely manner. Furthermore, adequate accounting records are necessary for the Clerk-Treasurer to convert accounting information into the annual financial report.

Annual Financial Report

Local governments are required by Law to annually complete and file with OSC a detailed report of all financial activity for the preceding year. The Village is required to complete and submit their annual financial report no later than 60 days after the close of the fiscal year. While it is the Clerk-Treasurer's responsibility to complete and file this report, the Board should have procedures to ensure that the Clerk-Treasurer completes and submits it to OSC by the deadline.

Due to the lack of adequate accounting records, the Clerk-Treasurer had not completed and filed the annual financial reports since 2006-

07.¹ The annual financial report provides a tool for monitoring financial operations. The absence of annual financial reports impairs the Board's and Village residents' ability to monitor the Village's operations and financial condition and to make informed decisions and manage Village operations properly.

During our audit, the Village began work on a water improvement project funded by the United States Department of Agriculture. This funding requires an audit of the Village's records for the 2009-10 fiscal year. As a result of the audit requirement and the condition of the accounting records, the Village hired a consulting firm to revise the Village's accounting records and compile the annual financial reports in a format that would enable a CPA firm, also hired by the Village, to audit the records. The hiring of someone to reconstruct the records resulted in additional costs of approximately \$16,000.

Recommendations

1. The Board should provide the Clerk-Treasurer with guidance, training and oversight to ensure that the Clerk-Treasurer maintains a complete accounting system. The Clerk-Treasurer should ensure the system:
 - Uses double-entry bookkeeping and maintain control accounts for assets, liabilities, revenues and expenditures
 - Includes information as to the nature, source and amount of each cash receipt
 - Includes account numbers and accurate account titles in conformance with the State Comptroller's Uniform System of Accounts
 - Eliminates the need to enter data more than once
 - Includes audit trails.
2. The Board should ensure that the Clerk-Treasurer files annual financial reports with OSC no later than 60 days after the close of the fiscal year.

¹ After the completion of our audit, the Village filed the annual financial reports through the fiscal year 2009-10.

Cash Receipts and Disbursements

The Board is responsible for establishing internal controls to properly safeguard the Village's cash assets. This includes adopting policies and procedures to ensure that real property taxes and water revenues are collected and deposited. The Board must also ensure that key duties (i.e., maintaining the accounting records, cash receipts, cash disbursements and bank reconciliations) are segregated or that compensating controls, such as management reviews of bank reconciliations and claims and annual audits, are performed.

The Board has not adopted policies and procedures for real property taxes or water operations, key duties are not segregated, and reviews of bank reconciliations and claims, and annual audits, are not properly performed. As a result, taxes and water revenues may not be deposited, payments may be made without contract to indicate the services to be provided, and there is an increased risk that irregularities could occur.

Real Property Tax Receipts

Real property taxes are the primary source for financing Village operations and totaled \$191,944 for the 2009-10 fiscal year. Real property taxes are levied on the first of June every year and are collected by the Clerk-Treasurer from that date through the date unpaids are returned to the County.² The Board is responsible for establishing policies and procedures to ensure that a chronological record is maintained for tax receipts so that a clear audit trail exists between moneys received, recorded and deposited.

The Board has not established policies and procedures for collecting real property taxes. Consequently, the Clerk-Treasurer does not maintain a chronological listing of taxes collected that is traceable to bank deposits. Tax receipts are hand-written on the tax rolls, which are not organized chronologically.³ The Clerk-Treasurer accumulates tax receipts and periodically makes deposits. Due to this weakness, we reviewed tax receipts and deposits during our audit period. Although we did not find any material errors, without a chronological record, the Village lacks a clear audit trail. As a result, the Village is at risk that taxes collected may not be deposited.

Water Rents

Water rents are the primary source of funding for water operations and totaled approximately \$75,000 for the 2009-10 fiscal year. The Board is responsible for adopting policies and procedures to ensure that water rents are billed based on actual meter readings, that no

² The County then pays the Village the uncollected taxes, and the uncollected taxes are relieved onto the County roll.

³ Chenango County is organized by parcel number, Madison County is organized by address.

individual has unsupervised control over the entire billing and collection process, and that a customer control account is maintained and independently reconciled to detail customer records to ensure accuracy.

The Board has not adopted policies and procedures for collecting water rents. As a result, controls are not appropriately designed and operating effectively, as follows:

- Meter Readings — The Clerk-Treasurer prepares water bills twice a year. Prior to each billing, the Clerk-Treasurer generates a list of meters to read. The list is provided to the Department of Public Works employees who use the list to record current usage. However, in situations where meters are not working, the meter readers do not have access to the meters, or the readings appears unreasonable to the Clerk-Treasurer, the Clerk-Treasurer estimates the readings. In addition, where access is not possible, customers sometimes self-report meter readings. There is no limit as to the number of times readings may be estimated or customers may self-report readings.
- Billings and Collections — The Clerk-Treasurer inputs the readings into the computer system, generates the computerized billing records, and prints and mails final water bills to customers. However, the Clerk-Treasurer can process billing adjustments without Board approval. The Clerk-Treasurer also collects and deposits water receipts, records receipts in the billing software, and prepares the list of unpaid accounts for relevy on the tax roll for collection. Although the Clerk-Treasurer manually verifies a selection of bills to be sent to customers for accuracy, there is no independent review of the billings, collections or levy of unpaid accounts on the tax roll for reasonableness.
- Control Account — The Clerk-Treasurer does not maintain a rents receivable control account that reflects the total activity in the customer accounts. Consequently, Village officials do not reconcile the total of the balances for all customer accounts to ensure the accuracy of the records.

These weaknesses in controls diminish the ability of Village officials to detect trends in billings and collections that would require investigation and further action. Because of these weaknesses, we inquired as to the status of 104⁴ of 413 water customer accounts

⁴ We selected accounts that were either highlighted, marked with an asterisk or did not have a recorded meter reading causing us to believe a higher risk existed.

selected from the July 2009 water billing. DPW employees provided the following information:

- Twenty accounts had meters that were not working
- Fourteen accounts had meters that could not be accessed
- Six accounts had meter reading errors.

Consequently, 40 of the 104 accounts (38 percent) were billed based on estimates made by the Clerk-Treasurer. In addition, we randomly selected and tested 31 accounts for the July 2009 and January 2010 billings. We recomputed the water billing based on rates in effect and the recorded water consumption, and verified whether they were paid, levied or remained unpaid.

Although we did not find any material errors, the failure of the Board to establish policies and procedure and oversee the Clerk-Treasurer, increased the risk that improper adjustments could be made, customers could be underestimating their meter readings, or that customers could receive inaccurate or incomplete billings. All of which could result in the Village failing to collect all revenues needed to fund operations and expose the Village to financial loss.

Segregation of Duties

The Board is responsible for establishing controls to provide reasonable assurance that cash is safeguarded and accounted for and that financial transactions are authorized and properly recorded. The concentration of key duties with one individual (i.e., maintaining the accounting records, cash receipts, cash disbursements and bank reconciliations) significantly increases the risk that errors or irregularities could occur. Where it is not feasible to segregate duties, the Board must institute compensating controls such as independent reviews of bank statements, checks and bank reconciliations, and properly perform its statutory duty of verifying that claims are properly supported and are for proper Village purposes before authorizing payment.

The Clerk-Treasurer's duties were not adequately segregated. He maintained the Village accounting records, collected and deposited cash receipts including real property taxes, water rents, and governmental aid, prepared voucher packets for Board audit, and generated, signed and mailed checks. He also processed online and electronic payments, received the bank statements and reconciled the adjusted bank balances with the cash control accounts.⁵ With these duties, the Clerk-Treasurer could initiate, process and conceal inappropriate transactions.

⁵ After our audit period, the Trustee began receiving and reviewing the bank statements and cancelled checks before forwarding them to the Clerk-Treasurer.

These risks were somewhat mitigated because a second signature was required on all checks, and the Mayor told us that he reviewed claims prior to signing the checks. The Board also assigned one of the Trustees to review the bank reconciliations. However, we reviewed twelve monthly bank reconciliations for the bank account with the most activity and found that two did not agree with the “running” check register balance they were intended to reconcile with. After we informed the Clerk-Treasurer of the errors both reconciliations were correctly revised and reconciled to the adjusted bank balances. However, the failure of the Trustee to find the errors in his review calls into question the effectiveness of this control.

Due to these control weaknesses, we compared known receipts to bank deposits and reviewed claims and documentation for 52 payments totaling \$ 64,000.⁶ We also reviewed 10 electronic and online payments totaling \$7,740. We found no exceptions for the deposits or the electronic and online payments. However, we identified five payments totaling \$9,500 that were paid to private organizations. The Village paid \$1,000 to an opera house, \$5,000 to a senior citizens center, and \$3,500 to a museum without written contracts to indicate the services to be provided in exchange for the payments. Although these payments were authorized by the Board, they could be improper. The New York State Constitution prohibits villages from making gifts of money to aid private organizations. The lack of segregation of duties or compensating controls increases the risk that errors can occur and go undetected.

Annual Audits

Village Law requires the Board to annually audit, or have a Village officer, employee, or an independent public accountant audit, the financial records of the Clerk-Treasurer. This annual audit provides an independent verification that transactions have been properly recorded and that cash has been properly accounted for. It also provides Board members with assurance that the financial records and reports contain reliable information on which to base financial decisions.

The Board did not audit, or cause to be audited, the financial records of the Clerk-Treasurer for the fiscal year ended May 2009.⁷ Village officials told us they thought a Board member audited the accounting records monthly through his review of bank reconciliations. However,

⁶ We selected payments by determining we had all of the payments that cleared the bank, and the selected certain payments based on the perceived nature of the payments, payee names, amounts and number of payments made to particular payees.

⁷ During our audit, the Village began work on a water improvement project funded by the United States Department of Agriculture. This funding requires an audit of the Village’s records for the 2009-10 fiscal year. See “Annual Financial Report” section.

his review is not sufficient because it does not include the necessary review of records other than the cash account (e.g., payroll records, water rent receivable records). The Board's annual audit could have helped compensate for the lack of segregation of duties discussed previously. The failure to perform an annual audit diminishes the Board's ability to monitor financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected.

Recommendations

3. The Board should establish policies and procedures to ensure the Clerk-Treasurer maintains a chronological record of tax receipts.
4. The Board should adopt policies and procedures for water operations that:
 - Require the repair or replacement of meters that are not working
 - Establish limits for the number of times a meter reading can be estimated and the number of times customers can self report readings
 - Require the Clerk-Treasurer to obtain Board approval for billing adjustments
 - Require an independent review of billings, collections and the unpaid amounts levied on the tax roll for collection
 - Require the maintenance of a rents receivable control account and an independent reconciliation of the account to the total of the balances for all customer accounts.
5. The Board should ensure that the Trustee verifies that the adjusted bank balances per the bank reconciliations agree with the check register balances.
6. The Board should ensure payments are not made to private organizations without written contracts to indicate the services to be provided in exchange for the payments.
7. The Board should annually audit, or cause to be audited, the financial records of the Clerk-Treasurer.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Mayor
William Excell

Trustees
Margaret Corey
Dr. Gerald Hayes
Henry Moore
Thomas Taylor



Streets Commissioner
Water Superintendent
Bernard Thayer
Village Justice
Ronald Hailston
Clerk / Treasurer
Kelly Beach

January 18, 2012

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington St
Syracuse, NY 13202-1428

Dear Ms. Wilcox:

On behalf of the Village of Earlville, I am writing to acknowledge receipt of the Comptroller's audit of Internal Control Over Selected Financial Operations conducted by members of your staff for the period from June 1, 2009 to May 31, 2010. Please allow me to convey our appreciation for the time and effort of your staff throughout the audit process. The Village is pleased with the recent improvements we have implemented in regards to the accounting records and controls that have been put into practice and welcomes guidance that may help us improve upon our current practices and procedures.

Given the extent of the audit, the Village is pleased that the Comptroller's office found no evidence of fraudulent activity or significant financial problems and actually witnessed some of the implementations which began to address some of the issues identified. While the Village generally agrees with the recommendations included in the audit report and shares the comptroller's commitment to strengthen controls intended to safeguard the Village's assets, there are some clarifications which we would like to make in response to the findings of this audit report.

The following constitutes the Village's response, which shall be followed with a formal Corrective Action Plan as required after the final audit report is issued. Many of the recommendations found in the audit have already been implemented.

I. RECORDS AND REPORTS

Response to recommendations 1-2:

The recommendations contained in this section have already been implemented. The Board has retained the services of Municipal Solutions to provide guidance, training and oversight to ensure that the Clerk-Treasurer maintains a complete accounting system. A new double-entry accounting software system has also been

implemented as well as training for the correct use of the new and pre-existing software. Correct account numbers and accurate account titles in conformance with the State Comptroller's Uniform System of Accounts have been utilized with the new accounting system, as well as the ability to include the information as to the nature, source, and amount of each cash receipt. The new accounting software allows the Village to maintain control accounts for assets, liabilities, revenues and expenditures as well as eliminating the need to enter data more than once. It also gives an easy audit trail. In regards to filing timely annual financial reports with OSC, the Village had retained John Savash from Municipal Solutions prior to the State's audit to assist and train on correct AUD financials.

II. CASH RECEIPTS AND DISBURSEMENTS

Response to recommendations 3-7:

Real Property Tax Receipts- The Board disagrees with your findings in regards to Real Property Tax Receipts in that the Clerk-Treasurer did in fact maintain a chronological record for tax receipts that provided a clear audit trail between moneys received, recorded and deposited. Admittedly, the information was spread out between spreadsheets, however it was easily traceable and chronologically in order. With the Village switching to the new double entry accounting program, the audit trail should be much easier to trace in the future since all the information will be in one place rather than spread out between several spreadsheets.

See
Note 1
Page 19

Water Rents- The Village has been aware of the issues resulting in your recommendations regarding water meter readings. Prior to the audit, the Village had undertaken a large water project which includes the purchase and use of digital water meters. These new meters will remove the necessity of estimating water usage as the Village workers will be able to read the meters from the roadside, removing the need to gain inside access to residential homes to obtain water readings. To date 6 of these new meters have been installed and are in use; it is planned that meter installation should be complete by September 2012. The Board has established policies and procedures that require the repair or replacement of meters that are not working and limit the number of times that customers can call in to self report a meter reading. The Board has adopted the policy that once the new meters are in place and working, a reading may only be estimated 1 time a year. The Board has had an existing policy that the Clerk-Treasurer obtains approval of the Water Bills from the Board prior to mailing them as well as any adjustments that may be made. Based on your recommendations, the Reconciliation Officer has been appointed to perform periodic reviews of billings, collections and unpaid amounts levied on the tax roll for collection.

Bank Reconciliation- The Clerk-Treasurer has modified and made easier to understand the Bank reconciliation process for the Board Liaison to reconcile all bank statements to check register balances. This should remove the chance of future errors for the Reconciliation Officer.

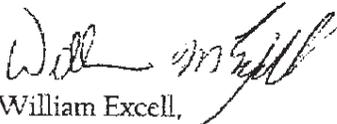
See
Note 2
Page 19

The Board agrees with your recommendations regarding taking steps to ensure that payments are made to private organizations only with written contracts that indicate the services to be provided in exchange. The Village has notified the organizations in question and is taking steps in obtaining contracts with them.

In response to your last recommendation, the Village had already obtained the services of Ciaschi, Dietershagen, Little, Mickelson & Co., LLP to perform an annual audit of the financial records of the Clerk-Treasurer. This firm performed the first audit the week following the State Audit and the members of your staff were aware that the Village had already taken this yearly step based on the recommendation of USDA RD. May I point out that the audit report issued by Ciaschi for the 2009-2010 fiscal year was an unqualified opinion. The firm has also just recently started work on the 2010-2011 audits for the Village.

The Board concurs that accurate and complete accounting records are essential to maintain accountability over financial resources. In January 2011, the previous Clerk-Treasurer left his appointment and the Board appointed a new Clerk-Treasurer who has assisted in implementing your recommendations including the conversion from using spreadsheets for record keeping to a double entry accounting system. The Village now has a comprehensive and efficient system which has combined three different systems and automated many manual duties.

In conclusion, I want to again thank you and your staff for your recommendations and expertise. Our goal as a Board is to proficiently manage operations and provide transparency, while ensuring our residents continue to be provided with excellent service at the lowest possible cost. The Village will continue to monitor its systems and controls and continue in its effort to safeguard Village assets.



William Excell,
Mayor
Village of Earlville

APPENDIX B

OSC COMMENTS ON THE VILLAGE'S RESPONSE

Note 1

The Village did not maintain a chronological record of tax receipts with a clear audit trail. Although the Village did maintain a separate spreadsheet for each revenue account, individual receipts could be spread across multiple spreadsheets (e.g., taxes and penalties were recorded on separate spreadsheets). In addition, deposits could contain receipts recorded on numerous revenue spreadsheets. Although each revenue account contained chronological entries, individual entries on each revenue account needed to be combined in an attempt to match an amount deposited. At the time of our audit the Village Clerk-Treasurer concurred with our assessment that it would be difficult and time consuming to trace receipts to individual deposits.

Note 2

Now that the Village is maintaining computerized accounting records, bank statements should be reconciled to the cash control accounts in the accounting records, not just to the check register balance.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the Village maintains adequate accounting records to account for and report its financial operations, and if internal controls over cash receipts and disbursements were appropriately designed and operating effectively. We performed the following audit procedures:

- We interviewed Village officials and documented and evaluated internal controls over the recordkeeping, and cash receipts and disbursements processes.
- We viewed accounting records and reports for completeness and for unusual items.
- We inquired as to the meter status of customer accounts, and reviewed water rent billings for two billings to determine if the bills were properly paid, re-levied onto the real property taxes, adjusted or remained unpaid.
- We compared bank reconciliations to check register balances.
- We verified that real property tax receipts, water rents, State aid payments, County payments, fire contract amounts and franchise fees were deposited by comparing total amounts deposited into Village bank accounts with the total amount of known receipts (June 1, 2009 to May 31, 2010).
- We verified that all checks that cleared Village bank accounts were available for our examination. We selected 52 cancelled checks and related claims totaling \$63,995 to determine if they were for proper Village purposes.
- We selected eight on line payments totaling \$ 2,750.44 and two electronic Federal Tax Payment System payments totaling \$ 4,986.92 to determine if they were for proper Village purposes. We selected three of four vendors that were paid the highest dollar values.

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.

APPENDIX D

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AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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