



# Village of Endicott

## Selected Financial Operations

### Report of Examination

Period Covered:

June 1, 2009 — March 8, 2011

2011M-231



Thomas P. DiNapoli

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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 Board of Trustee 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 Endicott, entitled 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

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# EXECUTIVE SUMMARY

The Village of Endicott (Village) is located in the Town of Union in Broome County. The Village has approximately 12,300 residents. The Village's annual budget for the 2010-11 fiscal year was \$25.1 million, funded mainly from real property taxes, non-property tax distributions, and water, sewer, and electric fees. As of March 2, 2011, there were 195 employees. During our audit period, the Village paid approximately \$16.5 million in gross salaries.

The Board of five elected Trustees (Board), which includes the Mayor governs the Village and is responsible for the general management and control of the Village's finances and operations. The Mayor, who is a member of the Board, serves as the Village's chief executive officer. The Clerk-Treasurer serves as the Village's chief fiscal officer.

### **Scope and Objective**

The objective of our audit was to review selected financial activities for the period of June 1, 2009 to March 8, 2011. We extended our scope period to April 13, 2011 to review user access rights, and to May 31, 2011 to obtain the bank reconciliation variances through the end of the Village's fiscal year. Our audit addressed the following related questions:

- Did the Mayor provide benefits that were not approved by the Board?
- Did the Clerk-Treasurer ensure that payroll disbursements were for approved salary and benefits, and that non-payroll disbursements were accurate and for appropriate Village purposes?
- Did Village officials ensure computerized data was properly safeguarded?

### **Audit Results**

We found that two Village employees received \$15,445 in salaries and benefits that were not authorized by the Board. The Mayor exceeded his authority in solely approving these additional benefits. As a result, Village funds were used to pay employees salary and benefits they were not entitled to receive.

We also found that four Village employees were overpaid a total of \$1,000 for health insurance buyouts and another employee received a duplicate check for \$1,543 because the Village lacked adequate internal controls over disbursements. Although the dollar amounts of these overpayments

are relatively small, and the employee repaid the \$1,543 overpayment, the control weaknesses we identified were significant: the Clerk-Treasurer did not oversee the work of the payroll clerk, who handled all payroll duties, or the computer operator, who could perform all aspects of the non-payroll disbursement process. Both of these employees could use the Clerk-Treasurer's and Mayor's electronic signature without their supervision. Further, the Village's financial software did not have controls in place to prevent the issuance of duplicate checks, and no one properly reconciled the Village's accounts. Unless the Village improves controls over disbursements, there is increased risk that Village funds could be used to make inaccurate or inappropriate payments in the future without detection.

Further, Village officials did not ensure that computerized data was properly safeguarded. Village staff had unnecessarily excessive user access rights and also shared common user accounts. Also, user accounts were not deactivated in a timely manner upon employees' separation from Village service. Further, the Village outsourced information technology (IT) services to a third-party service organization without a written agreement detailing the responsibility for security over these services. The failure to limit user access increases the risk that individuals could inappropriately gain access to the system and change, destroy, or manipulate data. Due to the lack of a detailed written agreement, it would be difficult for the Board to determine whether the organization is providing the agreed upon services and has adequate security over the IT services it provides to the Village.

### **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. Local officials generally agreed with our recommendations, and indicated that they will initiate corrective action. Appendix B contains our comments on issues raised in the Village's response letter.

# Introduction

## Background

The Village of Endicott (Village) is located in the Town of Union in Broome County. The Village has approximately 12,300 residents and provides various services, including water distribution, sewage treatment, electricity, refuse collection, road maintenance and snow removal, public safety, fire and rescue services, parking, library, airport and general government support. The Village's annual budget for the 2010-11 fiscal year was \$25.1 million, funded mainly from real property taxes, non-property tax distributions, and water, sewer, and electric fees. The Village made 10,030 payroll disbursements totaling \$22.6 million and 6,996 non-payroll disbursements totaling \$26.2 million from June 1, 2009 to May 8, 2011. As of March 2, 2011, the Village had 195 employees. During our audit period, the Village paid approximately \$16.5 million in gross salaries.

The Board of five elected Trustees (Board), which includes the Mayor, governs the Village. The Board is responsible for the general management and control of the Village's finances and operations and protection of Village assets including computerized data. The Mayor, who is a member of the Board, serves as the Village's chief executive officer. The Board-appointed Clerk-Treasurer serves as the Village's chief fiscal officer. He is responsible for the custody of all Village moneys, maintaining accounting records, signing checks, filing required financial reports, and keeping a record of Board proceedings. The Board appointed an Assistant Clerk-Treasurer to help the Clerk-Treasurer fulfill these duties. During our audit period, the Village also employed a payroll clerk<sup>1</sup> who was responsible for processing the payroll, and a computer operator, who is responsible for any information technology (IT) issues.

The objective of our audit was to review selected financial activities. Our audit addressed the following related questions:

## Objective

- Did the Mayor provide benefits that were not approved by the Board?
- Did the Clerk-Treasurer ensure that payroll disbursements were for approved salary and benefits, and that non-payroll disbursements were accurate and for appropriate Village purposes?

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<sup>1</sup> The payroll clerk was laid off on May 31, 2011; the Village's personnel director began performing payroll duties as of June 1, 2011.

- Did Village officials ensure that computerized data was properly safeguarded?

## **Scope and Methodology**

We examined the Village's internal controls over disbursements and IT for the period of June 1, 2009 to March 8, 2011. We extended our scope period to April 13, 2011 to review user access rights, and to May 31, 2011 to obtain the bank reconciliation variances through the end of the Village's fiscal year. Our audit disclosed areas in need of improvement concerning IT controls. Because of the sensitivity of this information, certain vulnerabilities are not discussed in this report but have been communicated to Village officials so they could take corrective action.

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. Local officials generally agreed with our recommendations, and indicated that they will initiate corrective action. Appendix B contains our comments on 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's office.

## Employee Benefits Authorized Solely by the Mayor

Employees should receive only those benefits that have been authorized by the Board as a whole. The Mayor does not have legal authority to solely approve benefits. The Clerk-Treasurer is responsible for disbursing funds as approved by the Board.

However, we found that two employees received \$15,445 in salaries and benefits that were not authorized by the Board. The Mayor exceeded his authority in solely approving these additional benefits.

- The Mayor's Secretary was paid a stipend totaling \$10,615.
- The part-time airport manager was allowed to use a Village-owned airplane hangar without being charged a rental fee, which would have amounted to \$4,830. The airport manager's personnel file contained a letter from the Mayor waiving the rental fee, but the Board had not approved it. This amount, which was not reported to the Internal Revenue Service (IRS), is most likely a taxable benefit, and should be reported as income.

It is essential that the Village improve controls to ensure that all salaries and benefits provided to employees are approved by the Board. It is also essential that all Village officials ensure they comply with these controls so that Village funds are not used to pay for unnecessary or inappropriate costs.

### Recommendations

1. The Mayor should grant benefits for employees only if the benefits are documented as authorized by the Board.
2. The Clerk-Treasurer should ensure that employees are provided only those pay rates and benefits that are approved by the Board.
3. The Board should consider recovering the unauthorized payments and benefits or report any previously unreported payments and benefits to the IRS.

## Disbursements

It is the responsibility of Village officials to ensure that disbursements of Village funds, including payroll payments, are accurate and authorized. However, our tests of Village disbursements found that four Village employees were overpaid a total of \$1,000 for health insurance buyouts and another employee received a duplicate check for \$1,543 because the Village lacked adequate internal controls over disbursements. Although the dollar amounts of these overpayments are relatively small, the control weaknesses we identified were significant.

The Clerk-Treasurer is responsible for establishing adequate internal controls over disbursements. Such controls include segregating the duties of recording, authorizing and disbursing payments so that one person does not control all aspects of financial transactions, or providing enhanced supervision to reduce the risk of improper payments or recording errors. The Clerk-Treasurer and the Mayor must also verify that payments to which their electronic signatures are applied are for correct and appropriate amounts. Further, it is essential that the payroll account and other Village accounts be reconciled regularly, and that discrepancies be resolved in a timely manner, to account for Village monies and to maintain accurate records.

However, we identified the following weaknesses in controls over disbursements:

- The payroll clerk performed<sup>2</sup> all duties relating to the payroll process without oversight from the Clerk-Treasurer. The payroll clerk's duties included recording payroll transactions, printing the payroll checks, and signing the checks using the Mayor's<sup>3</sup> and the Clerk-Treasurer's electronic signatures without their oversight.
- The computer operator can perform all aspects of the non-payroll disbursement process: she has access to the financial records, prints the checks, and signs them using the Mayor's and the Clerk-Treasurer's electronic signature. Although the Clerk-Treasurer reviews summary listings of claims before they are paid, he does not track check numbers used

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<sup>2</sup> The payroll clerk was laid off on May 31, 2011; the Village's personnel director began performing the same payroll duties as of June 1, 2011.

<sup>3</sup> The Mayor's signature is applied to all checks, even though his signature is not required by Village Law.

on these lists, so he cannot be sure that these are the only disbursements made from Village bank accounts.

- The financial software did not have controls in place to prevent the issuance of duplicate checks. Four pairs of payroll checks were issued with the same check number; three sets of duplicate checks had different payee names and amounts, all of which were proper payments. The fourth pair of checks had the same payee name and amount, resulting in an overpayment of \$1,543 to this employee. The computer operator discovered this duplicate check, and the employee repaid the overpayment.
- No one properly reconciles the Village's cash accounts to bank records. The Clerk-Treasurer assigned reconciliation duties to the computer operator, who is not independent of the disbursement process. Further, the payroll and accounts payable accounts were both successfully reconciled only once (November 2010 and May 2010, respectively) in the 24-month period from June 1, 2009 to May 31, 2011.
- The Assistant Clerk-Treasurer performs the bank and wire transfers. We found no evidence that the Clerk-Treasurer provides oversight of these transactions.

Given these control weaknesses, we tested the salaries paid to a sample of 13 employees<sup>4</sup> who were paid a total of \$755,490 during the 2009-10 fiscal year and \$577,910 during 2010-11 fiscal year up to March 2, 2011. We found that four employees were overpaid \$1,000, in total, for health insurance buyout payments, due to an error in calculating the amount. We also tested a sample of 67 non-payroll disbursements totaling \$51,640, selected from among the 6,996 non-payroll checks, totaling \$26.2 million, which the Village issued from June 1, 2009 through March 8, 2011. Finally, we tested 92 inter-fund bank transfers, outgoing wire transfers performed, withdrawals, and debit memos totaling \$8.9 million during our audit period. We found that other disbursements and transfers tested were supported and appropriate.

The Clerk-Treasurer told us that the Village does not have enough staff to adequately segregate duties. However, having someone outside the payroll process review the work, and controlling electronic signatures, could greatly reduce the level of risk without

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<sup>4</sup> Our 13-person sample included the Clerk-Treasurer, the Assistant Clerk-Treasurer, the computer operator, the personnel director, the payroll clerk, as well as a non-biased judgmental sample consisting of two employees from each of the Police, Fire, and Public Works Departments and the Treasurer's Office.

adding staff. Improving controls over disbursements will reduce the risk that the Village could pay for unnecessary or inappropriate costs, and enhance the reliability of Village financial records.

## **Recommendations**

4. The Clerk-Treasurer should assign the duties in the payroll and disbursement processes and the wire transfer function so that no one employee can control all aspects of the process. If this is not feasible, he should provide more oversight or implement mitigating controls to ensure that payments and transfers are accurate and appropriate.
5. The Clerk-Treasurer and Mayor should maintain control over their signatures and ensure that they are not used to make inappropriate payments.
6. Village officials should communicate with their financial software vendor to ensure that essential software controls, such as not allowing check numbers to be used more than once, are enabled on their program.
7. The Clerk-Treasurer should ensure that proper bank reconciliations are completed regularly for all cash accounts, and that discrepancies are corrected in a timely manner.

## Computerized Data

The Village's IT system is a valuable and essential part of operations, used for accessing the internet, communicating by email, processing and storing data, maintaining financial records, and reporting to State and Federal agencies. Therefore it is imperative that Village officials guard against the unauthorized access to IT data. Village officials are responsible for ensuring that the Village's computerized data is secure. Our assessment of the Village's ability to protect vital and sensitive data included evaluating user access rights in light of their respective duties, the assignment of only one user account per employee, and the timeliness of deactivating user accounts upon their separation from Village service. We also examined the technology services provided by a third-party.

We found Village officials did not ensure that computerized data was properly safeguarded. Village staff had excessive user access rights and shared user accounts. Also, user accounts were not deactivated in a timely manner. Further, the Village outsourced IT services to a third-party service organization without a written agreement detailing the responsibility for security over these services.

### User Access

The computer operator is responsible for managing user accounts, including additions, deletions, and modifications to them. She told us that department heads request and approve these changes, which should be documented using the Village's access form. It is important that employees' access to computer systems, software applications, and data is restricted based on job descriptions and responsibilities. One unique user account should be created for each employee, and the employee should use only that account. In addition, user accounts must be deactivated as soon as employees leave Village employment.

We found the Village does not use the access form for granting and modifying user access and does not have a formal process for documenting the deletion of user accounts. User access within the network and financial software was not limited based on job duties, and certain employees shared user accounts. In addition, we found that user accounts giving employees access to network and financial software were not deactivated timely when employees left Village service or when the accounts became unnecessary.

Network – Network user accounts with administrative rights give those users broad access to all Village files, including the ability to add software and make changes to files and records. Therefore, the number of employees with administrative rights should be very

limited. However, we found that 21 of 60 network user accounts in the Village have local administrative rights. The computer operator told us that the 21 users were granted local administrator rights on the network because these computers were getting viruses constantly; therefore, these users needed access to automated updates for security purposes. We reviewed the anti-virus protection network rules and found that computers were set up to download the latest updates automatically every four hours and also allowed users to manually launch the virus protection software to download the latest updates. Therefore, it is not necessary to grant users administrative rights to allow access to automated virus protection updates.

We also found that 17 of the 60 network user accounts could be disabled: four accounts are no longer being used, three accounts are issued to current employees who each have another user account, three accounts are shared by seven employees who all have their own unique user accounts, and seven accounts are used by IT consultants. The consultants' accounts could be disabled and enabled when needed. The computer operator acknowledged that these accounts could be disabled, and said that the Village had experienced more personnel changes than usual recently.

Financial Software – Out of 45 financial software user accounts, five are power user accounts.<sup>5</sup> According to the computer operator, the five financial software power users were mandated by the Mayor for backup purposes when the administrator or payroll person is on vacation or in emergencies due to storms, death, or other situations. The five power users can perform all of the payroll processing duties within the financial software. Because these users all have the ability to perform these disbursement functions, there is the risk that they could pay for inappropriate expenditures or make unauthorized changes in data that would go undetected and uncorrected.

Of the remaining 40 financial software user accounts, we identified 11 accounts that should be disabled: nine accounts were not timely disabled when the employees left Village service, one account was used to set up other user accounts and should be disabled when not needed, and one account is used by seven employees, all of whom have individual accounts. According to the computer operator, she assigned access rights based on verbal requests from department heads. She told us that she disables the network and financial software user accounts when she is verbally notified, but sometimes she leaves user accounts on the system until a transition has been completed for that employee.

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<sup>5</sup> Power users have the ability to perform all functions within the financial software. The five power users are the Clerk-Treasurer, the Assistant Clerk-Treasurer, the computer operator, the personnel director, and the payroll clerk.

The failure to limit user access increases the risk that individuals could inappropriately gain access to the system and change, destroy, or manipulate data. If a problem arises, it would be difficult to determine, without proper documentation, who authorized access, when access was given or revoked, and what kind of access was permitted. Having multiple individuals use the same account does not allow Village officials to determine which of these individuals perform certain transactions.

### **Third-Party Technology Services**

As with most Village contracts, the Board is responsible for approving any service agreements with vendors, including IT services. A written agreement for technology services should clearly define the services to be provided and the related security. It is important that the Clerk-Treasurer retains a copy of all signed agreements, along with supporting details, to ensure that providers are performing services as indicated in the agreements.

The Village uses a third-party service organization for various IT services, including weekly maintenance, server and computer set up, firewall configurations, virus protection, and other services as needed. However, the Board does not have a written agreement with this organization, which detail any related security over these services. The organization has direct access to the Village's data with a user account and has the firewall password. Therefore, any personal, private or sensitive information<sup>6</sup> is at risk.

Due to the lack of a detailed written agreement, it would be difficult for the Board to determine whether the organization is providing the agreed upon services and has adequate security over the IT services it provides to the Village. In addition, there is an increased risk that unauthorized individuals could inappropriately gain access to the Village's network and sensitive data could become compromised, especially since the user account remains active.

### **Recommendations**

8. The computer operator should maintain proper documentation for adding, deleting, and modifying user access.
9. The computer operator should limit users' access rights within the network and the financial software to those necessary to complete their job duties.
10. The computer operator should set up only one unique user account for each employee.

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<sup>6</sup> Personal, private or sensitive information, as defined by the New York State Office of Cyber Security, is any information where unauthorized access, disclosure, modification, destruction or disruption of access to or use of such information could significantly impact an organization, its employees, its customers or third parties.

11. The computer operator should deactivate the accounts of persons who leave Village employment in a timely manner.
12. The Board should ensure that it has an approved, formal, written agreement between the Village and the third-party service provider that clearly defines the services and the related security provided to the Village.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

# Village of Endicott

John Bertoni

**MAYOR**

1009 East Main Street

Endicott, NY 13760

(607)757-2420

January 25, 2012

Mr. Todd Eames, Chief Examiner  
Office of the State Comptroller  
Division of Local Government and School Accountability  
44 Hawley Street – Room 1702  
Binghamton, N.Y. 13901-4417

Dear Mr. Eames,

The Village of Endicott is acknowledging receipt of the State Comptroller's audit report of selected financial operations for the period of June 1, 2009 to March 8, 2011. The following content of this letter will detail the State Comptroller's findings and recommendations, along with the Village's response to those issues.

## **I. EMPLOYEE BENEFITS**

### Response to Recommendations 1-3:

The two issues identified in the audit after reviewing employee benefits were that the Mayor's Secretary was paid a stipend totaling \$10,615 and the part-time Airport Manager was allowed to use village-owned hanger space without being charged a rental fee.

The village does acknowledge that the Mayor's Secretary is paid a stipend. The prior administration had passed a resolution granting the previous secretary a stipend in accordance with the secretary taking on additional responsibilities and duties. They included the secretary also being an administrative assistant to the Clerk/Treasurer, Payroll and Public Works offices. When the current Mayor's Secretary began employment at the Village, she assumed these additional duties along with the stipend that had been previously granted. While this was agreed to at the time of employment, the Board will take necessary action to ensure the stipend is now properly documented and authorized.

The part-time Airport Manager was hired as an hourly employee along with being able to use one airplane hanger space with no monthly charge. As mentioned in the report, this is documented in the Airport Manager's personnel file. Since discussing the report with the Comptroller's Office, the village has corrected the reported earnings of the Airport Manager to reflect the yearly amount of the hanger rental as earned income. This has been corrected with the Internal Revenue Service (IRS) retroactive to the start of the Airport Manager's employment and will continue on as such.

## II. DISBURSEMENTS

### Response to Recommendations 4-7:

The first recommendation is that the Clerk/Treasurer should adequately segregate the duties within the payroll, disbursement and wire transfer processes so that no one employee can control all aspects of the process. The Village does agree with the recommendation that we may need to re-allocate some duties within these processes. Due to the limited staff at the Village offices, these processes were segregated between appropriate personnel with some overlap of multiple duties. While the payroll clerk and computer operator can perform multiple aspects of the payroll and disbursement processes, the payroll reports are reviewed by the Mayor and Clerk/Treasurer and appropriately signed off once fully reviewed. The accounts payable records and reports are reviewed by the Mayor and Clerk/Treasurer and approved by the Village Board at our bi-monthly regular meetings before the checks are disbursed. One new control that is being implemented is the Clerk/Treasurer will have the responsibility of maintaining all payroll and non-payroll checks and tracking the check numbers. These will then continue to be reviewed and approved by the Mayor and Clerk/Treasurer before they are electronically signed.

It was also noted in the report that the Assistant Clerk/Treasurer performs bank and wire transfers without oversight. The Assistant Clerk/Treasurer has the responsibility of performing the payroll and accounts payable transfers. This is done at least one day prior to the checks being sent out as money is transferred from our savings account to the payroll or checking account, and is immediately reviewed by the Clerk/Treasurer. The totals from the payroll or accounts payable reports are matched to the transfer confirmation and therefore approved by the Clerk/Treasurer. These are the only transfers the Assistant Clerk/Treasurer is authorized to perform. The village currently has a security feature with our checking account in which any wire performed online will be held until a banking representative speaks to the Clerk/Treasurer on the phone to confirm the wire. We are implementing a similar security feature with our savings account in which a wire not completed by the Clerk/Treasurer will require the Clerk/Treasurer's approval before the transaction is completed.

See  
Note 1  
Page 19

The audit also found that four pairs of payroll checks were issued with the same check number, but to different payees and amounts. While these were all proper payments we do agree that this poses a problem within our financial software system. The Clerk/Treasurer, Computer Operator and Payroll Department have notified our financial software vendor and are all working on a solution to ensure that check numbers will not be allowed to be used more than once.

See  
Note 2  
Page 19

The village agrees with the recommendation that the bank reconciliations are to be completed in a more timely manner and the accounts should be successfully reconciled monthly. The Clerk/Treasurer has assigned the reconciliation duties to the computer operator but still maintains the oversight of the accounts. The administration duties of reconciliations and other financial functions are currently being reviewed for more accurate segregation and we are also looking into assigning duties to administration who are independent of the disbursement process. The Clerk/Treasurer may also take over the reconciliation duties or re-allocate certain duties to ensure proper oversight and accountability of all financial areas within the village.

### III. COMPUTERIZED DATA

Response to Recommendations 8-12:

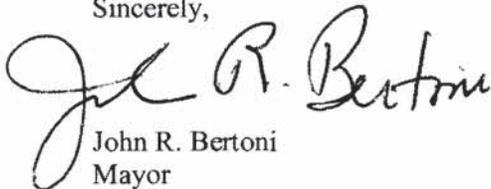
The Village is in agreement with the recommendations in this report pertaining to our Information Technology (IT) system. Some of the recommendation have already been put in place while others are still being reviewed to make sure they will be accurately implemented.

The computer operator will now maintain all documentation for granting access to our financial software. This will also include each authorized employee having their own sign on and not sharing of single accounts. The computer operator will also have the responsibility of deactivating accounts of former employees, and limiting access rights of current employees to only the areas of the software that pertains to their job.

We do agree that a formal, written agreement between the village and our third-party IT service provider should be in place. We have been using our service provider for many years and we currently purchase hours of their time and then use them as needed. We may still use this practice but are working on a more formal arrangement with them.

We appreciate your recommendations for improving village operations and we will continue to monitor our systems and controls for accuracy and proficiency. The Village will follow up with a Corrective Action Plan after the final audit report is issued. We thank you for your professionalism and for your consideration of our response.

Sincerely,



John R. Bertoni  
Mayor

## APPENDIX B

### OSC COMMENTS ON THE LOCAL OFFICIALS' RESPONSE

#### Note 1

Although Village officials told us at the exit conference that the Clerk/Treasurer reviewed the bank and wire transfer sheets printed by the Assistant Clerk/Treasurer, we found no evidence of such a review during our audit. Furthermore, the oversight measure, as described, is weak because it relies on the Assistant Clerk/Treasurer, who performed the transfers, to print and present the transfer sheets to the Clerk/Treasurer for review.

#### Note 2

Three pairs of checks issued with the same check number were to proper payees. However, the fourth pair of checks issued with the same check number was a double payment to the same payee. This double payment was re-paid months later upon being discovered by Village officials.

## APPENDIX C

### 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 internal controls 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, cash receipts and disbursements, payroll and personal services, purchasing, audit of claims, and IT.

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 IT, payroll and cash disbursements for further audit testing. Our audit included the following steps:

- We interviewed Village officials and employees about existing internal control systems over IT, payroll and cash disbursements.
- We reviewed the benefits given to two employees based on complaints received to ensure that they were properly authorized by the Board.
- The Village paid 262 employees a total gross amount of \$16.5 million during our audit period. We selected a sample of 13 employees, including all five power users and a non-biased judgmental sample consisting of two employees from each of the Police, Fire, and Public Works Departments and Treasurer's office. These employees were paid a gross amount of \$755,490 during the 2009-10 fiscal year and \$577,910 during 2010-11 fiscal year up to March 2, 2011. We tested this sample of employees to ensure that the gross amount paid was supported and in accordance with Board-approved rates and contracts and that the withholdings were accurate and adequately supported and properly paid to the vendors.
- We also compared the five power users' gross salaries paid for the 2010 calendar year to their W-2s to ensure they matched.
- We selected a non-biased judgmental sample of 15 individuals from all 262 individuals paid by the Village from June 1, 2009 to March 2, 2011 by selecting every 17th one from the list of individuals paid after it was sorted alphabetically. We also selected all 14 individuals that were hired during that same period. In addition, we sampled five additional individuals that were paid June 1, 2010 to March 2, 2011 that were not paid during June 1, 2009 to May 31, 2010. We verified that all 34 individuals were legitimate Village employees by reviewing the personnel files including employment eligibility verification (I-9) and/or W-4s.
- We selected a non-biased judgmental sample of five employees out of the 14 individuals hired during our audit period to ensure that their hiring was approved by Civil Service.

- We also verified that leave accruals for the five power users were accurate according to their employment contracts as of February 26, 2011.
- We compared four non-biased judgmentally selected gross payrolls plus employer contributions, by selecting every 11th payroll, which included October 28, 2009, March 31 and September 1, 2010, and February 2, 2011, to the amounts transferred to the payroll bank account to ensure that the dollar amounts matched.
- We reviewed all 12 payroll checks totaling \$10,000 within the electronic data that were processed outside of the normal payroll cycles and traced the payee name and amounts to the canceled check images to ensure that they were valid Village payroll expenditures.
- From June 1, 2009 through March 8, 2011, the Village disbursed 6,996 non-payroll checks totaling approximately \$26.2 million. We tested a non-biased judgmental sample of 67 disbursements totaling approximately \$51,640 as follows: we selected six utility bills, 11 bills with the payee name of “One Time Vendor,” all 26 bills with a power user as a payee, and 12 bills from an abstract from both fiscal years, for a total sample of 24. We reviewed these disbursements to ensure that they agreed with respective canceled check images, appeared on a Board-approved abstract, were supported and were appropriate Village expenditures.
- We reviewed all bank statements for the months of November 2009 and October 2010 and tested all 91 inter-fund bank transfers, outgoing wire transfers performed, and debit memos totaling \$8.6 million and tested the only withdrawal totaling \$231,945 made during our audit period to ensure that all transfers were supported and appropriate.
- We also reviewed all the journal entries for the months of November and December 2009 and October and December 2010. We tested all 74 journal entries totaling \$13.8 million to ensure that they were supported and appropriate.
- We attempted to verify that the bank reconciliations for all 14 Village bank accounts were accurate for the non-biased judgmentally selected month of February 2011. Because the bank reconciliations were not completed for the accounts payable and payroll accounts for February 2011, we attempted to verify the October 2010 and December 2010 bank reconciliations for these accounts, respectively. We reviewed the variances between the adjusted bank balance from the bank reconciliation and the general ledger cash accounts from June 2009 to May 2011 for the accounts payable and payroll accounts.
- We verified the check-sequence integrity for all bank accounts for the entire audit period and reviewed all the voided checks to ensure that they did not clear the bank account.
- We also reviewed all the check numbers that cleared the bank to determine if there were any duplicate checks issued during our audit period. We compared the four sets of duplicate checks’ numbers that cleared the bank to the canceled check image to verify the payee name and amount and made inquiries about why this had occurred.
- We reviewed the user access rights for all users within both the network and financial software to determine if any users had excessive access.

- We compared the network and financial software user access lists to the March 2, 2011 payroll report to determine if there were any accounts that did not belong to a current employee.
- We asked the computer operator about a third-party vendor that was providing IT services to the Village and attempted to obtain related written agreements regarding these services.

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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Steven J. Hancox, Deputy Comptroller  
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