



Village of Millerton

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

June 1, 2009 — February 3, 2011

2011M-257



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 governance. Audits also can identify strategies to reduce Village costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Village of Millerton, entitled Internal Controls Over Selected Financial Activities. 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 Village 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 of Millerton (Village) is governed by a Board of Trustees (Board), which comprises a Mayor and four Trustees, all of whom are elected for two-year terms. The Board is responsible for the general management and control of the Village's financial affairs, including establishing appropriate internal controls over financial operations. The Mayor is the chief executive officer and the Treasurer (Deputy Clerk/Treasurer) is the chief fiscal officer (CFO). As CFO, the Deputy Clerk/Treasurer is responsible for the receipt, disbursement and custody of Village moneys, maintaining appropriate accounting records, and preparing monthly and annual financial reports.

The Village provides various services to its residents, including street maintenance and improvements, snow removal, public improvements, part-time law enforcement, recreation, water, street lighting, and general government support. The Village's budgeted appropriations for the 2010-11 fiscal year were approximately \$831,000, funded primarily with real property taxes, user charges and State aid. Expenditures incurred in providing these services are primarily accounted for in the general and water funds.

Scope and Objective

The objective of our audit was to review the Village's internal controls over selected financial operations for the period June 1, 2009 through February 3, 2011. We expanded our scope period from January 1, 2008 through February 3, 2011 for our review of payroll payments. Our audit addressed the following related questions:

- Has the Village established adequate internal controls over payroll and personal services and are those controls operating effectively?
- Has the Village established adequate internal controls over the accounting, recording, billing and collection of water user charges?
- Are internal controls over the processing, audit and payment of claims adequately designed and operating effectively?

Audit Results

The Board failed in its responsibilities to ensure that the Village operated in accordance with applicable laws and its own policies, and did not exercise sufficient oversight of Village financial operations to ensure that Village assets were adequately safeguarded. The Village had weaknesses in

both its preventive controls, such as segregation of duties and policies and procedures, and detective controls, such as effective Board oversight. Consequently, these weaknesses resulted in questionable payments and lost revenues.

Internal controls over the Village's payroll and personal services functions were inadequate and, in some cases, non-existent. The Board did not clearly authorize certain employees' salaries and wage rates and/or properly document such authorization. The Board's lack of sufficient oversight and failure to adopt comprehensive written policies and procedures has resulted in a lack of an adequate segregation of duties with no effective compensating controls. The Board has not established adequate policies for the preparation and processing of payroll and administration of employee benefits, and it has only very limited procedures in place to ensure that employee time records are properly prepared and approved, proper payroll amounts are paid, employees receive the fringe benefits only to which they are entitled, and leave accrual records are accurate.

As a result, we found that the Deputy Clerk/Treasurer received \$4,730 in payroll amounts that she was not entitled to, and inappropriately charged sick leave on her time sheets to maintain full-time status with the New York State and Local Retirement System. Further, the Village paid the Clerk \$8,656 and the former Working Foreman \$2,456 for leave time that they were not entitled to.

The Board does not provide adequate oversight of the water fund's financial operations. The Board has not established written policies and procedures governing user charge activities. There is no formal Board action authorizing the quarterly master billing (water roll). The Board does not authorize any subsequent adjustments to the water roll and does not receive financial reports of water fund billing and collection activity.

As a result, we found a lack of segregation of duties with billing and collection activities, penalties for unpaid bills that were inconsistently applied and/or recorded, penalties estimated at \$1,700 that were not assessed during our audit period, and adjustments that were made to customer accounts without appropriate approval.

The Village's claims auditing process does not ensure that taxpayer funds are properly safeguarded and used only for authorized purposes. The Board has not established a formal policy or procedures to guide claims processing, which would help to ensure that the claims processing system is operating effectively. We found deficiencies in the claims audit process, including claims not having documented evidence that they were audited by the entire Board. When we did find some indication that the Board audited the claims, only two Board members typically initialed the claims to indicate audit. We also found improper payment of claims prior to Board audit, a lack of receipt of goods and services, and a lack of department head approval of claims. In addition, although at its meetings the Board passes a resolution authorizing that the claims be paid, and the minutes indicate the claims that were approved for payment, we found several cases where claims were paid without being brought to the Board for audit.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix B, have been considered in preparing this report. Village officials generally agreed with our findings and recommendations and indicated they plan to initiate corrective action. Our comment concerning the Village officials' response can be found in Appendix C.

Introduction

Background

The Village of Millerton (Village) is located in the Town of North East, Dutchess County and has a population of approximately 900 residents. The Village is governed by a Board of Trustees (Board), which comprises a Mayor and four Trustees, all of whom are elected for two-year terms. The Board is responsible for the general management and control of the Village's financial affairs, including establishing appropriate internal controls over financial operations. The Mayor is the chief executive officer and the Treasurer (Deputy Clerk/Treasurer) is the chief fiscal officer (CFO). As CFO, the Deputy Clerk/Treasurer is responsible for the receipt, disbursement and custody of Village moneys, maintaining appropriate accounting records, and preparing monthly and annual financial reports. Although the Board is primarily responsible for the effectiveness and proper functioning of the Village's internal controls, the Mayor and Deputy Clerk/Treasurer also share the responsibility for ensuring that internal controls are adequate and functioning properly.

The Village provides various services to its residents, including street maintenance and improvements, snow removal, public improvements, part-time law enforcement, recreation, water, street lighting, and general government support. The Village's budgeted appropriations for the 2010-11 fiscal year were approximately \$831,000, funded primarily with real property taxes, user charges and State aid. Expenditures incurred in providing these services are primarily accounted for in the general and water funds.

The Deputy Clerk/Treasurer is responsible for performing all payroll functions. The Village's gross payroll for the 2009-10 fiscal year totaled approximately \$371,000. During the same year, the Village's budgeted estimated revenues totaled \$256,522 for water sales, charges, fees, and penalties.

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:

- Has the Village established adequate internal controls over payroll and personal services and are those controls operating effectively?
- Has the Village established adequate internal controls over the accounting, recording, billing and collection of water user charges?

- Are internal controls over the processing, audit and payment of claims adequately designed and operating effectively?

**Scope and
Methodology**

We examined the Village's internal controls and financial records and reports for the period June 1, 2009 through February 3, 2011. The scope period for our examination of payroll and personal services was expanded to begin on January 1, 2008 and end on February 3, 2011.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix D 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 B, have been considered in preparing this report. Village officials generally agreed with our findings and recommendations and indicated they plan to initiate corrective action. Our comment concerning the Village officials' response can be found in Appendix C.

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. The Board should make the CAP available for public review in the Village Clerk's Office.

Payroll and Personal Services

The Board is responsible for establishing appropriate controls over the payroll process to ensure that the Village pays its employees only the salary and benefits to which they are entitled. A good system of internal controls requires that policies and procedures be adopted by the Board governing all aspects of employee compensation and benefits, including payroll processing, lump sum payments, and leave accruals. In addition, adequate procedures need to be in place to help ensure that payments to employees are made in accordance with the Board's intent and employees do not use more leave time than they have available. Two essential components of any internal control system are the proper segregation of duties to ensure that no one person controls all phases of a transaction, and effective management oversight.

Internal controls over the Village's payroll and personal services functions were inadequate and, in some cases, non-existent. The Board did not clearly authorize certain employees' salaries and wage rates and/or properly document such authorization. The Board did not adequately segregate payroll duties and did not provide effective compensating controls. The Board has not established adequate policies for the preparation and processing of payroll and administration of employee benefits, and it has only very limited procedures in place to ensure that employee time records are properly prepared and approved, proper payroll amounts are paid, employees receive the fringe benefits only to which they are entitled, and leave accrual records are accurate. As a result, the Deputy Clerk/Treasurer received \$4,730 in payroll amounts that she was not entitled to, and inappropriately charged sick leave on her time sheets to maintain full-time status with the New York State and Local Retirement System. Further, the Village paid the Clerk \$8,656 and the former Working Foreman \$2,456 for leave time that they were not entitled to.

Salary Authorization

Village Law requires the Board to approve salaries of all officers and employees, and the benefits provided to them. Generally, this is done by Board resolution at the Board's annual organizational meeting. Any changes to salaries and benefits also must be Board-authorized, and such authorizations documented. It is important that Board authorization for salaries and wages be documented in the minutes, Board-approved policies, or negotiated employment contracts to communicate the Board's intent and provide a framework for compensation that is clearly understood. These controls help to ensure that employees are properly paid the salaries and wages and provided the benefits to which they are entitled.

The Board did not clearly authorize certain employees' salaries and wage rates and/or properly document such authorization. We examined six employees'¹ payroll transactions to determine whether salary/pay rates were supported by written authorizations, such as Board resolutions or approved employment contracts. We found that the Board did not clearly document the authorization of salary and wages for the employees examined, including the Deputy Clerk/Treasurer, Clerk, cleaner, a police officer, a laborer, and a gate keeper. Village officials stated that salaries and wage rates are established through the annual budget process.

We attempted to verify the salaries and pay rates against the adopted budget for fiscal year 2010-11; however, the Village's total personal services appropriations for a given budgetary account code included amounts for more than one employee, and for more than one title. For example, account A3120.10 Police Salaries was used to account for all police officer salaries, including the Chief of Police and part-time police officers. The accounts did not break out individual salaries and pay rates. Therefore, Village officials could not provide documentation to support specific amounts appropriated for individual positions.

The Board's failure to formally authorize and clearly document employee salaries and wages can result in the Village making payments to employees in excess of the amounts the Board intended.

Deputy Clerk/Treasurer

To ensure that employees receive only the compensation that they are entitled to, Village officials must require that employees maintain detailed time records that document the starting and ending time, and the work performed. Further, Village officials must not concentrate key responsibilities (e.g., entering and deleting employee information, such as wage rates, into the financial management system, processing the bi-weekly payroll, and issuing payroll checks) with one individual because it increases the risk that errors and/or irregularities could occur and go undetected and uncorrected. If it is not practical to adequately segregate the financial duties of an individual, the Board must provide sufficient oversight and implement compensating controls, such as having someone independent of the payroll process periodically compare time records with the payroll register to ensure that payroll disbursements are accurately and completely supported.

Village officials did not adequately segregate payroll duties. The Deputy Clerk/Treasurer is responsible for all phases of the payroll processing function – including creating computerized employee

¹ See Appendix D, Audit Methodology and Standards, for details on our sample selection process.

records, inputting wage rate changes, collecting and processing time sheets, and entering employees' hours worked – all of which are performed with no oversight. As the principle employee in charge of processing payroll, she has complete access to the financial management system. Although the Board requires the Mayor to certify payrolls, the Deputy Clerk/Treasurer has the ability to change the Village's financial records and issue payroll checks after the Mayor's certification. This increases the risk that the Deputy Clerk/Treasurer could issue inappropriate checks without detection.

The Deputy Clerk/Treasurer works a 30 hour work week.² Therefore, per the Village's personnel policy, she is classified as a part-time employee and is entitled to part-time benefits, including three sick leave days per year, prorated vacation and holiday leave, but no personal leave. However, we found that the Deputy Clerk/Treasurer received payments for sick time and personal leave totaling \$4,730 for 217 hours that she was not entitled to.³ The Village credited her with leave time as if she was a full-time employee instead of part-time. The Mayor stated that he considered the Deputy Clerk/Treasurer a full-time employee. He did acknowledge that this determination is contrary to the Village's personnel policy, which expressly defines full-time status as working 40 hours per week.

Further, in March 2009, the Board approved an alternate work schedule that authorized the Deputy Clerk/Treasurer to work a 30-hour week in three week days, evenings and from home. According to supplementary documentation provided to us, the Deputy Clerk/Treasurer wanted to work this alternate schedule to maintain full-time employment status with the New York State and Local Retirement System, which requires her to work a minimum of 30 hours per week. Neither the Mayor nor the Board provided any further discussion of the work to be performed or business need for allowing the Deputy Clerk/Treasurer to work from home, or guidance on how the alternate working arrangement would be recorded and reported on her time sheets.

The Deputy Clerk/Treasurer did not maintain her time sheets in accordance with Village policy, which requires employees to record their starting and ending times for each day worked. We reviewed the

² According to the official office hours posted at the Village Hall, the Treasurer works Monday, Wednesday and Friday from 9:00 AM to 3:00 PM, and Wednesday evening from 5:00 PM to 8:00 PM. Pursuant to a statement made in the March 24, 2009 Board minutes, the Treasurer "will continue to work a 30 hour week in three weekdays, evenings and from home." However, Village officials could not provide us with documentation to verify that she actually performs any work from home or in the evenings.

³ Refer to Appendix A, Tables 1 and 2 for detailed information.

Deputy Clerk/Treasurer's time sheets for the period January 1, 2008 through January 31, 2011 and found the following deficiencies:

- The Deputy Clerk/Treasurer recorded 90 hours worked on Saturdays and Sundays in 2010; 60 of these hours lacked documentation of the work performed. She also recorded 77 hours for work performed on Tuesdays and Thursdays,⁴ 55 of which lacked information necessary to account for her work day, including starting and ending times. Forty of the 77 hours were coded as "correspondence," and nine hours were not coded, as to work performed, at all.
- The Deputy Clerk/Treasurer recorded hours for sick time on virtually every time sheet. However, her time sheets did not include information necessary to account for her work day, including which day of the week she was ill and charging the time to her sick leave accruals. In fact, out of the 93 hours for sick leave the Deputy Clerk/Treasurer recorded in 2010, 58 of these sick leave charges were not assigned to any specific day. Of particular concern was that the Deputy Clerk/Treasurer stated that she used the sick time shown on her time sheets as 'unassigned to any particular day' to achieve a 30-hour work week (60 hours per pay period), and, as a result, she has been able to maintain full-time status for retirement purposes.

Although the Mayor certified payrolls, accompanying time sheets were not reviewed by him or other Village officials. The Mayor stated that his payroll review consisted mainly of comparing the payroll total amount to the previous payroll to determine reasonableness. He did not review or sign the time sheets provided to him with each payroll. Had the Deputy Clerk/Treasurer been directed to submit her time sheets to the Mayor for review and approval, the deficiencies cited above may have been detected. Prior to concluding our field work, we observed that the Mayor was reviewing employee time sheets as part of the payroll certification process.

Because the Deputy Clerk/Treasurer controlled all aspects of the payroll process with no oversight from the Mayor, she received payments that she was not entitled to, and inappropriately charged sick time to maintain full-time status with the New York State and Local Retirement System. We will be referring our report to the New York State and Local Retirement System for further review.

⁴ Days not generally worked at Village Hall. The Treasurer's posted hours at Village Hall are Monday, Wednesday and Friday.

Additional Improper and Unauthorized Payments

General Municipal Law provides, among other things, that the governing board of a village, by local law, ordinance or resolution, may grant vacation, sick leave or a leave of absence to its officers or employees with or without pay and adopt rules and regulations as it relates to such leaves.

The Village's personnel policy⁵ defines full-time employees as those employees who work a regularly scheduled work week consisting of 40 hours per week. These employees are entitled to full-time regular benefits, including paid days for personal leave, sick leave and vacation time. Part-time employees are eligible for some part-time benefits, including three days of sick leave per year, pro-rated vacation time based on length of service, and paid holidays (earned on a pro-rated basis). The personnel policy makes no provision for personal leave for part-time employees. The personnel policy provides for up to 12 weeks of maternity leave. The employee may use accumulated sick leave for maternity leave or take the time without pay.

However, the Village's personnel policy does not address the maintenance of leave time records, and the records maintained by the Village's computer payroll application are incomplete and inaccurate. Leave time accrual records are maintained on employees' paycheck stubs. There is no independent record maintained of accrued leave time, thereby precluding an independent verification of the accuracy of employee leave time records. Further, vacation time was credited to employee accruals in a lump sum at the beginning of each fiscal year rather than being earned on a monthly basis throughout the year, as prescribed by the Village's personnel policy. Therefore, the paycheck stubs do not contain a record of time earned for the pay period and only include the sum total of hours taken and hours remaining.

Because of the inadequate maintenance of leave time records, and lack of segregation of duties and oversight by the Board, we also found that the Clerk and Working Foreman received payments totaling \$11,112 that they may not have been entitled to, as discussed in more detail below.

Clerk – The Clerk works a 30 hour work week.⁶ Therefore, per the Village's personnel policy, she is classified as a part-time employee, entitled to part-time benefits. However, we found that the Clerk

⁵ *Village of Millerton Personnel Policies* was adopted in May 1999 and last updated in March 2002.

⁶ According to the official office hours posted at the Village Hall, the Clerk works Monday through Friday from 9:00 AM to 3:00 PM. These hours were established by Board resolution on March 24, 2009.

received payments for sick time and personal leave totaling \$4,394 for 267 hours that she was not entitled to.⁷ Of particular concern was that, even if the Clerk had been entitled to the 30 hours of personal leave each year, she would have exceeded that allocation for two years during the period of our review. The Clerk charged 44.5 personal leave hours during the fiscal year 2008-09 and 48 personal leave hours during the fiscal year 2009-10. The Village's timekeeping system allowed her to use more hours than she was entitled to.

In addition, we found that the Clerk was paid for 46 days of maternity leave; however, she did not charge her leave time accruals, as required by the Village's personnel policy. This time was valued at \$4,262.⁸

Working Foreman⁹ – In February 2010, the Board passed a resolution allowing the Working Foreman (Foreman) to retire and return to work on a part-time basis for the next fiscal year. The Foreman was paid a gross salary of \$22,285 for 936 hours in June 2010. The Deputy Clerk/Treasurer stated the amount paid to him was for 617 hours of accrued compensatory time totaling \$14,688 and 319 hours of unused vacation time totaling \$7,597. However, the Foreman was entitled to buy out only a maximum of 216 vacation hours totaling \$5,141. Therefore, the Foreman received a payment of \$2,456 more than he was entitled to for accrued unused vacation time.¹⁰

Furthermore, the Village's personnel policy makes no provision for the accrual and use of compensatory time, and the records maintained to support the 617 hours of claimed compensatory time were deficient. The Deputy Clerk/Treasurer stated that when she first began her employment at the Village, she was directed to record an accrual amount based on the verbal authorization of the Foreman and the former Mayor. Other than computer data maintained in the Village's computerized payroll application, the Deputy Clerk/Treasurer did not have documentation, such as an annual employee certification, or independently maintained accrual record, to support the 617 compensatory time hours purportedly earned.

The Mayor stated that the Board discussed the Foreman's separation payment for unused leave time; however, he could not recall a formal Board resolution authorizing the separation payment. The absence of clear and unambiguous meeting minutes and policy language addressing these benefits raises questions about the legitimacy of the amounts the Village paid to each of these employees. The failure to segregate payroll duties, maintain independent leave time records,

⁷ Refer to Appendix A, Tables 3 and 4 for further information.

⁸ 22 six-hour days at \$14.10 in 2008 and 24 six-hour days at \$16.67 in 2010

⁹ Also referred to as Highway Operator

¹⁰ Refer to Appendix A, Table 5 for further information.

and perform a periodic verification of the accuracy and completeness of the computer records posted on employee paycheck stubs hinders the Village's ability to ensure and account for the proper accrual and use of leave time, and led to the Village paying for leave time that was not available.

Recommendations

1. The Board should authorize salary and wage schedules for employees by resolution, contract or salary agreements.
2. Village officials should segregate payroll duties. Where it is not practicable to segregate duties, Village officials should establish appropriate compensating controls, such as increased management review procedures.
3. The Board should monitor and enforce compliance with the Village's personnel policy.
4. The Board should establish written procedures to address the maintenance of leave time records and ensure that accurate information for time accruals is maintained, monitored and periodically reconciled. Payments for unused leave time should only be made after proper approval and verification of accrual balances based on adequate supporting records.
5. The Village should recoup payment of improper benefit time paid to the Deputy Clerk/Treasurer and Clerk.
6. The Board should not allow the Deputy Clerk/Treasurer to use sick time to achieve a 30-hour work week to enable her to maintain full-time status with the New York State and Local Retirement System.
7. The Board should formally authorize and clearly document the terms and conditions of the Deputy Clerk/Treasurer's alternate working arrangement.
8. The Board should formally authorize and clearly articulate employee benefit provisions, including compensatory time.
9. The Mayor and department heads should ensure that employees properly complete their time sheets, then approve and submit the employee time sheets to the Deputy Clerk/Treasurer, as required.
10. The Mayor should approve the Deputy Clerk/Treasurer's time sheet and review time sheets as part of the payroll certification process.

Water User Charges

Revenue from water operations is derived from water user charges (water rents) billed on a quarterly basis. According to the July 2010 billing records, the Village provided water services to 481 residential and commercial customers.¹¹

The Board is responsible for the overall management of the Village's water fund activities and establishing an internal control system that provides reasonable assurance that cash and other resources are safeguarded and accounted for, and that financial transactions are authorized and properly recorded. The Deputy Clerk/Treasurer is responsible for maintaining and reporting all necessary financial information to ensure the proper accountability of water operations. Village officials are responsible for implementing the Board's control directives by designing and documenting appropriate operating policies and procedures, and properly delineating employee responsibilities.

The Board does not provide adequate oversight of the water fund's financial operations. The Board has not established written policies and procedures governing user charge activities. There is no formal Board action authorizing the quarterly master billing (water roll). The Board does not authorize any subsequent adjustments to the water roll, and does not receive financial reports of water fund billing and collection activity. As a result, we found a lack of segregation of duties with billing and collection activities, penalties for unpaid bills that were inconsistently applied and/or recorded, penalties of \$1,700 that were not assessed during our audit period, and adjustments made to customer accounts without appropriate approval.

Board Approval

The Board has the responsibility to authorize all billing and adjustments to customer accounts for Village services, including the quarterly water billing (roll) and any subsequent adjustments to those charges. Good management practice and proper internal controls dictate that the total amount of all water user charges billed be documented in the minutes of the proceedings of the Board. The Board's action in approving the water roll and any adjustments provides oversight of Village officials who prepare customer bills, make adjustments, and maintain user account records. Without proper Board oversight, internal controls are weakened and the risk that errors or irregularities may occur and go undetected is significantly increased.

¹¹ 376 Village customers and 105 Outside-Village (Town) customers

There is no formal Board action authorizing the quarterly water roll or any subsequent adjustments made to those charges. Although the Deputy Clerk/Treasurer creates the quarterly water roll and provides it to the Clerk for review, she does not present it to the Board for authorization and approval. Further, according to the Deputy Clerk/Treasurer and Clerk, they both make adjustments to customer accounts and the Mayor 'signs-off' on the adjustments. However, with the exception of the Mayor's approval of one adjustment report containing credit adjustments to 11 customer accounts totaling \$723 for the July 2010 quarterly bill in June 2011, neither he nor the Board approved any billing and customer account adjustments made during our audit period. For the six quarterly billings covering the period October 1, 2009 to January 1, 2011, credit adjustments recorded in the master billing rolls totaled \$4,415.

User Charge Receipts

A well-designed system of internal controls over cash receipts requires that management establish a reliable accountability process for collections immediately upon receipt. The Board has the responsibility to adopt policies and procedures governing user charge activities (such as billing customers, collecting receipts, and maintaining customer accounts) and to describe employee responsibilities. The Board must segregate duties so that key responsibilities (e.g., collecting and depositing receipts and recording transactions in the accounting records) are not assigned to one individual. If it is not practical to adequately segregate the financial duties of an individual, the Board must provide sufficient oversight and implement compensating controls, such as having a Board member review bank statements and other documents on a monthly basis to ensure that cash receipts and disbursements are properly accounted for and agree with the Board's authorizations. Well-designed records require that the nature of each transaction, quantities, dates, and dollar amounts be documented. When used properly, press-numbered duplicate receipts provide documentation of a transaction and include required approvals and key reference numbers. The sequential numbering of records and documents gives each a unique identity for tracking purposes.

The Deputy Clerk/Treasurer and/or Clerk are responsible for receiving, recording, and depositing water rent receipts and other miscellaneous fees, such as charges for service connections and penalties imposed on late payments. They are required to safeguard and properly deposit all moneys into the Village bank account within 10 days of receiving moneys. For the fiscal year 2009-10, the Village's budgeted estimated revenues totaled \$256,522 for water sales, charges, fees, and penalties.

The Board has not adopted policies and there are no written procedures governing user charge activities. The Board did not adequately segregate duties with water user charge activities. The Deputy Clerk/Treasurer performs all aspects of user charge billings, collection of payments, assessment of penalties, preparing and making bank deposits, maintaining customer accounts, recording financial transactions, making adjustments, and preparing and submitting unpaid water charges to the County to be added to the Village tax rolls. Other than preparing the quarterly water roll and the lists of unpaid accounts for re-levy on the tax rolls, the Clerk performs all of these functions as well. The Board does not provide adequate oversight of the Deputy Clerk/Treasurer's and Clerk's work, and we did not find other sufficient compensating controls to mitigate risk.

We examined the cash collection procedures in the Deputy Clerk/Treasurer's Office and found that neither the Deputy Clerk/Treasurer nor the Clerk maintained a daily cash sheet to identify the moneys that they collected. There is no chronological book of original entry for water receipts; therefore, it cannot be determined whether any given receipt was deposited in a timely manner. Although the Deputy Clerk/Treasurer and the Clerk log receipts into the financial management system, they do not necessarily log these receipts on the day they are received. Also, a press-numbered duplicate receipt is issued only for cash received over the counter, and duplicate receipts are not recorded or issued in every case. Evidence of receipt for other forms of payment (e.g., check, money order) may be recorded on the user charge billing stub; however, those stubs are not available for review in every instance, and not every stub is marked when and in what form it was paid.

We reviewed 30 water user charge accounts from the July 1, 2010 quarterly billing, totaling \$4,916,¹² to determine whether user charges were accurately billed and payments were properly collected, recorded and deposited. All user charge accounts were billed according to the Village's adopted water rate schedule and amounts were correctly recorded in the customer accounts. We found, however, that 10 (33 percent) of the customer accounts reviewed, totaling \$1,683, lacked billing stubs to acknowledge receipt of payment or any other original entry of receipt record or document, making it impossible for Village officials to determine when the payments were actually received, and if they were deposited in a timely manner. We also examined each of the 17 accounts listed on the July 1, 2010 quarterly billing as a credit amount and determined that each credit amount was for an overpayment, including four accounts that had payments posted for unpaid amounts re-levied on the tax roll as of March 31, 2010.

¹² See Appendix D, Audit Methodology and Standards, for details on our sample selection process.

These deficiencies occurred and went undetected and uncorrected because the Board failed to implement a well-designed system of internal controls over the receipt of Village moneys. The Board failed to segregate the Deputy Clerk/Treasurer's and Clerk's duties and oversee their work and, therefore, did not ensure that they properly performed their required financial duties.

Records and Reports

Quarterly billings should be posted to the water rents receivable account. Periodically, the receivable account must be reconciled to the amounts billed, amounts collected, and the remaining unpaid accounts. It is important that unpaid bills be verified using the individual customer ledger accounts and that any differences be promptly investigated and resolved. The Deputy Clerk/Treasurer must provide periodic reports to the Board regarding the status of unpaid water rents.

The Deputy Clerk/Treasurer does not periodically reconcile customer accounts with amounts billed, collected and remaining unpaid. Consequently, the Board does not have any assurance that amounts billed, collected and remaining unpaid are accurately accounted for. The Deputy Clerk/Treasurer also does not provide the Board with periodic reports of water fund activities, such as water bill receipts and unpaid water bills, and the Board has not requested this information from the Deputy Clerk/Treasurer. This limits the Board's ability to effectively monitor the water fund's financial condition.

Delinquent Accounts

It is important that the Board adopt measures to enforce the payment of unpaid water bills. According to the Village's adopted water rate schedule, customers may make water bill payments without penalty for 30 days from the billing date. For overdue water bills, a penalty of 10 percent is imposed on the first of the month following the billing date, with an additional 15 percent assessed the following month. The rate schedule also provides for shut off of service if water bills are not paid within 90 days from the billing date. In practice, the Deputy Clerk/Treasurer adds all the water bills, penalties and fees not paid by March 31 of the following year to the Village tax roll. The same penalties are imposed for Town customers' overdue water bills; the unpaid water bills, penalties and fees not paid by September 30 are reported to the Town, and the Town reimburses the Village for the unpaid water bills. There were no shut offs of water services for unpaid bills during our audit period.

The Board did not ensure that the Deputy Clerk/Treasurer imposed penalties on unpaid water bills according to the Village's adopted water rate schedule. We reviewed the imposition of penalties on unpaid accounts for the seven quarterly billings covering the period October 1, 2009 to April 1, 2011, and found that penalties for delinquent water

bills were imposed an average of 18 days later than they should have been according to the adopted water rate schedule. In addition, the 10 percent penalty which should have been assessed on November 1, 2010 was assessed 30 days later. We found one instance where the 15 percent penalty which should have been assessed in June 2010 was not assessed at all; this resulted in lost revenue totaling \$1,700. Further, the 15 percent penalty totaling \$1,803 for the July 1, 2010 billing was imposed, but not reflected in the revenue ledgers, which increased the risk that the Village could collect insufficient amounts without detection.

The Deputy Clerk/Treasurer could not provide us with an explanation as to why these instances occurred, and the Mayor and Board were unaware that the Deputy Clerk/Treasurer had not assessed the penalties and not recorded them properly. The failure to assess penalties on unpaid customer accounts creates inequity with those customers who pay their water bills on time and results in lost revenue for the Village.

Recommendations

11. The Board should adopt policies and procedures that address the assignment of authority, approval of transactions, protection of assets, periodic reconciliations, and analytical reviews of water rent activities, and clearly communicate these policies and procedures to all individuals involved with financial transactions.
12. The Board should approve each quarterly master billing roll and any adjustments to user accounts in a timely manner. Such approvals should be recorded in the official minutes of the Board.
13. The Village should maintain a record of receipts for user charge payments. Deposits should be made in a timely manner and periodically reconciled to the record of receipts.
14. The Board should ensure that the Deputy Clerk/Treasurer imposes penalties on unpaid water bills according to the Village's adopted water rate schedule and that the penalties are properly recorded in the accounting records.

Claims Processing

The Board is responsible for auditing and approving all claims for payment, with few exceptions.¹³ The Board also must establish appropriate internal controls over claims processing. It is important that every claim be adequately documented and supported by a voucher, and an itemized receipt or invoice. Village Law also requires that each claim be accompanied by a statement from the officer whose action generated the claim indicating approval of the claim and confirming that the service was rendered or the goods were delivered. Good business practices dictate that the date of the audit be documented to ensure claims are audited prior to payment. After the claims have been audited, the Clerk must prepare, sign and transmit an abstract of the audited claims directing the Deputy Clerk/Treasurer to pay the claimants the allowed amounts. The Board minutes should contain a record of the claims audited and approved for payment.

The Village's claims auditing process does not ensure that taxpayer funds are properly safeguarded and used only for authorized purposes. The Board has not established a formal policy or procedures to guide claims processing, which would help to ensure that the claims processing system is operating effectively. We reviewed 50 claims,¹⁴ totaling \$195,938, paid by the Village to determine whether they contained sufficient documentation and itemization, were mathematically accurate, had appropriate approvals to allow for an adequate audit, and contained evidence that an audit was performed prior to payment. We found deficiencies with 47 claims totaling \$184,477; some claims had more than one deficiency, as indicated below.

- Forty-seven claims did not have evidence of audit by the entire Board. These claims had initials of only one, two, or three Board members. Four of these 47 claims were not audited by the Board at all. These claims included a \$361 payment for a payroll tax penalty, a \$6,844 payment for a Village lighting project, and two lump sum payments totaling \$900 for 'go-cart' rides for the Village-operated summer camp. Village officials were not aware that the entire Board must audit claims.

¹³ Village Law allows the Board to authorize by resolution the payment of certain claims in advance of audit, including those for public utility services, postage and freight, and express charges. However, all such claims must be presented to the Board for audit after they are paid.

¹⁴ See Appendix D Audit Methodology and Standards, for information on sample selection.

- Twenty-nine claims did not have evidence of department head approval on the claim, and another claim for blacktop, totaling \$10,458, was signed by the department head the day after Board audit and approval.
- Seventeen claims did not have signed receiving documentation attached to verify receipt of the goods or services as ordered, such as a packing slip or receiving signature.
- Eleven claims did not have evidence attached that competitive bids or quotes were sought to verify compliance with the Village's purchasing policy.
- Ten claims were not paid from original invoices. For example, an employee reimbursement claim for \$1,802 for lodging expenses incurred to attend a conference was supported by, and paid from, a reservation notice, not an invoice.

In a separate test, we selected 10 claims that were paid prior to audit, totaling \$17,470, to verify that the claims were presented to the Board for audit after they were paid. We found that nine claims totaling \$17,251 did not contain evidence of Board audit. These claims were for postage, utilities, a summer camp trip, a bond anticipation note payment, and a hotel charge. Furthermore, Village Law only allows for the payment of claims in advance of audit for public utility services, postage and freight, and express charges.

Without formal Board-approved policies and procedures, Village officials and employees do not have clear guidelines on performing their duties, and there is a risk that claims will not be processed and/or audited effectively. Although we found that the claims we tested represented actual, necessary and proper Village expenses, an ineffective claims audit process can result in the Village paying for claims that are invalid and unauthorized, or for goods or services that were not actually received. Also, when documentation is not sufficient to support the claims paid, the Village is at an increased risk of paying for improper purchases that could go undetected and uncorrected.

Recommendations

15. The Board should develop and adopt a formal written policy addressing the processing and payment of claims and establish procedures to ensure that claims are properly audited and approved prior to payment.
16. Each member of the Board should conduct a thorough and deliberate audit of all claims to ensure that they contain sufficient

supporting documentation and represent actual, necessary and proper Village expenses. Evidence of audit should be indicated on each claim.

17. The Deputy Clerk/Treasurer should disburse payments for claims only after those claims have been audited and approved by the Board.

18. Claims that are allowed to be paid prior to audit should be promptly presented to the Board for audit.

APPENDIX A

PAYROLL AND PERSONAL SERVICES TABLES

Table 1 – Deputy Clerk/Treasurer’s Sick Time								
	Hours Accrued	Hours Used (per Time Sheets)	Ending Balance	Hours Taken in Excess of Accruals (Annual)	Hours not Assigned to a Specific Day	Hourly Wage Rate	Value of Unearned Time Taken	Value of Unassigned Time Taken
Balance @ 5/31/08			57 ^a					
6/1/08-5/31/09	18	72.50	2.50	N/A	61	\$21.13	N/A	\$1,288.93
6/1/09-5/31/10	18	92.50	(72)	72	58	\$21.55	\$1,551.60	\$1,249.90
6/1/10-12/31/10	10.50	108	(169.50)	97.50	66	\$22.09	\$2,153.78	\$1,457.94
Total		273		169.50	185		\$3,705.38	\$3,996.77

^a For calculation purposes, amount represents cumulative hours accrued since Deputy Clerk/Treasurer’s hire date of 1/26/05 through the fiscal year ended 5/31/08. To be conservative in our calculations, we assumed that no charges were made to sick leave accruals during the preceding period.

Table 2 – Deputy Clerk/Treasurer’s Personal Leave								
	Hours Accrued	Hours Used (per Time Sheets)	Ending Balance	Hours Taken in Non-Compliance With Personnel Policy (Annual)	Hours not Assigned to a Specific Day	Hourly Wage Rate	Value of Unearned Time Taken	Value of Unassigned Time Taken
Balance @ 5/31/08			0					
6/1/08-5/31/09	N/A	0	0	N/A	N/A	\$21.13	N/A	N/A
6/1/09-5/31/10	N/A	25	(25)	25	6	\$21.55	\$538.75	\$129.30
6/1/10-12/31/10	N/A	22	(47)	22	6	\$22.09	\$485.97	\$132.54
Total		47		47	12		\$1,024.72	\$261.84

Table 3 – Clerk’s Sick Time						
	Hours Accrued	Hours Used (per Time Sheets)	Ending Balance	Hours Taken in Excess of Accruals (Annual)	Hourly Wage Rate	Value of Unearned Time Taken
1/1/08-5/31/08		20.50	(5.50) ^a	5.50	\$14.10	\$77.55
6/1/08-5/31/09	18	53	(40.50)	35	\$14.53	\$508.55
6/1/09-5/31/10	18	62	(84.50)	44	\$16.67	\$733.48
6/1/10-12/31/10	10.50	78.75	(152.75)	68.25	\$18.40	\$1,255.80
Total				152.75		\$2,575.38

^a For calculation purposes, amount represents cumulative hours accrued since Clerk’s hire date of 5/24/07 through the fiscal year ended 5/31/08 (15 hours less 20.50 hours taken during the period). To be conservative in our calculations, we assumed that no charges were made to sick leave accruals during the preceding period.

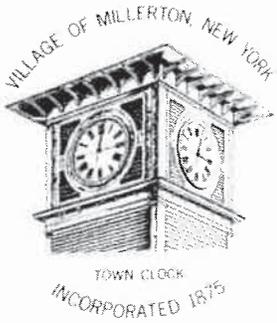
Table 4 – Clerk’s Personal Leave						
	Hours Accrued	Hours Used (per Time Sheets)	Ending Balance	Hours Taken in Non-Compliance With Personnel Policy (Annual)	Hourly Wage Rate	Value of Unearned Time Taken
1/1/08- 5/31/08	N/A	5.50	(5.50)	5.50	\$14.10	\$77.55
6/1/08-5/31/09	N/A	44.50	(50)	44.50	\$14.53	\$646.59
6/1/09-5/31/10	N/A	48	(98)	48	\$16.67	\$800.16
6/1/10-12/31/10	N/A	16	(114)	16	\$18.40	\$294.40
Total				114		\$1,818.70

Table 5 – Working Foreman’s Buyout Payment				
	Hours	Rate	Vacation Breakdown	Gross Pay
Compensatory Time	617.15	\$23.80	N/A	\$14,688.18
Vacation Time	160 Annual Allocation ^a 56 Maximum Carryover ^b	\$23.80	\$3,808.00 \$1,332.80	\$5,140.80
Total				\$19,828.98

^a Calculation assumes that the Foreman used no vacation time during the 2009-10 fiscal year.
^b Calculation assumes that the Foreman carried over the maximum hours allowed from the preceding year.

APPENDIX B
RESPONSE FROM LOCAL OFFICIALS

The Village officials' response to this audit can be found on the following page.



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February 29, 2012

Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725

Dear Mr. Ellis,

The Village of Millerton Board of Trustees held a special meeting on Wednesday, February 15, 2012 to discuss the draft audit report. The Village Board generally agrees with the audit findings. As we respect what you have found, many of the findings have been corrected. Please reflect these corrections in the Final Report:

Personnel

Payroll duties have been segregated. The mayor signs every timesheet bi-weekly, further increasing management review procedures and oversight. A resolution addressing the establishment of the Standard Work Day pertaining to the NYS Retirement System was passed at the Organizational Meeting held on April 4, 2011.

The village personnel committee along with the board will review and update the Personnel Policy and institute an accrual review process.

Water

Each quarterly Utility Billing master register and amount is now presented at the monthly board meetings, as well as amounts collected-to-date.

Claims Processing

The vouchers are now reviewed and signed by every board member. Prepaid vouchers are presented at the next regular board meeting.

A formal written policy for processing and payment of claims will be prepared.

In closing, Village officials feel that blindly applying a standard set of parameters to every local government and local school, regardless of size and total operating costs, is not conducive to *helping local government officials manage government resources efficiently and effectively*. Your report does not take into consideration the size, population and limited resources of our small village. The Village of Millerton has and continues to operate under budget and balance its budget annually with our limited resources.

See
Note 1
Page 26

Pursuant to Section 35 of the General Municipal Law, the Village of Millerton will respond with a written corrective action plan addressing the findings and recommendations in this report within 90 days.

Sincerely,

John Scutjéri
Mayor

c.c Village Board of Trustees

APPENDIX C

OSC COMMENT ON THE LOCAL OFFICIALS' RESPONSE

Note 1

We do not “blindly apply” a standard set of parameters to every local government. However, the efficient and effective functioning of a local government of any size depends greatly on the establishment of adequate internal controls. Board-adopted policies and continual Board oversight are crucial factors in safeguarding assets in any operation, but particularly in one where resources are limited and incompatible duties cannot be separated.

APPENDIX D

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. To accomplish this, we performed an initial assessment of the 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 oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions and reviewed pertinent documents, such as Village policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the Village's financial transactions as recorded in its databases. Further, we reviewed the Village's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

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 on the reported objectives and scope by selecting for audit those areas most at risk. We selected payroll and personal services, water user charges and claims processing for further audit testing.

For payroll, we examined the Village's payroll check registers from January 2008 through January 2011. We examined reports from the Village's financial management system including journal entries, trial balances, and general ledger reports. We also examined employee time sheets, New York State and Local Retirement System monthly reports, Board minutes, Village Code, and Village policies. Where necessary, we sought explanation from Village officials. In our initial test of employee time sheets, we made a non-biased judgmental selection of employees to represent each class of employee, including 12-month and seasonal, and part-time and full-time employees. Based on issues found in our initial test, we concentrated our examination on the Deputy Clerk/Treasurer and Clerk's time records for the period January 2008 through January 2011.

For water user charges, we reviewed quarterly master billing rolls, individual customer account histories, deposit registers, bank statements and deposit confirmations, general ledger reports, and evidence of paid receipts. We made inquiries of Village personnel where necessary. We selected July 2010 because the total quarterly billing amount was less than all other quarterly billings within our audit period; there was a large decrease in delinquent accounts from the April 2010 quarterly billing, and there was an unusually high dollar amount of credits on the July 2010 billing as compared with other quarterly billings. In our initial test of the July 2010 quarterly billing roll, we judgmentally selected 30 customers from a list of water users for testing, and documented other attributes of the account to demonstrate the different types of accounts (commercial, residential, Village and Town customers) represented in our test. We judgmentally selected July 5, 7, 13, 14, 21, and 28 in 2010 to determine if daily cash receipt transactions were supported and cash receipts were deposited in a timely

manner. We tested all of the accounts listed in the master billing as having a credit balance. From the Village re-levy list, we tested a non-biased judgmental selection of 10 customer accounts and traced from the re-levy list to the customer account to the quarterly master billing roll to verify that amounts were correctly billed and recorded and that overpayments were properly credited. From the 90 day delinquent column on the billing roll, we traced a non-biased judgmental selection of 10 accounts from the bills to the customer account histories to verify they were correctly billed and recorded.

For claims processing, we reviewed Village policies and procedures, and made inquiries of Village personnel who were knowledgeable about the process and financial management system. We reviewed 50 claims based on random sampling, and then further tested a biased selection of 10 claims because they were paid prior to audit. We reviewed abstracts, Board minutes, Village policies, individual claim packets and supporting documentation, and sought explanation from Village personnel where necessary.

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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