



Village of Nelliston

Board Oversight

Report of Examination

Period Covered:

June 1, 2010 — June 30, 2011

2011M-285



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

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

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

Respectfully submitted,

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

Introduction

Background

The Village of Nelliston (Village) is located in the Town of Palatine in Montgomery County and has a population of approximately 620 residents. The Village is governed by an elected Board of Trustees (Board) which is comprised of a Mayor and two Trustees. The Mayor serves as the Village's chief executive officer. The Board is responsible for managing the operations of the Village such as establishing and monitoring a system of internal controls, adopting the annual budget, monitoring the finances, and overseeing the work of Village officials. The Village's chief fiscal officer is the Treasurer, who is appointed by the Mayor, subject to Board approval.

The Village provides fire protection, street maintenance, refuse disposal, and water and sewer service to its residents. The Village's budgeted expenditures for the 2011-12 fiscal year were approximately \$450,000. These expenditures were funded primarily with real property taxes, sales tax, and water and sewer user charges.

Objective

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

- Has the Village Board provided adequate oversight to monitor the Village's finances and the Treasurer's duties by ensuring her timely completion of financial reports and by annually auditing her books and records?

Scope and Methodology

We interviewed Village officials and examined Village financial records for the period June 1, 2010, to June 30, 2011.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agree with our findings and recommendations and indicated that they will take corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded

to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk's office.

Board Oversight

The Board is responsible for the oversight of the Village's operations and ensuring that procedures are in place to safeguard the Village's financial resources. This responsibility includes establishing a system of internal controls which consist of policies and procedures that provide reasonable assurance that cash and other resources are properly spent. In addition, the Board must continually monitor and amend the budget as warranted and ensure monthly reports such as cash flow schedules, trial balances, and budget-to-actual reports are prepared and reviewed. These reports provide the Board with the information necessary to monitor Village operations and ensure compliance with the adopted budget. The Board also must make certain that the Treasurer files required documents with the Office of the State Comptroller (OSC) on a timely basis. Furthermore, the Board must annually audit, or cause to be audited, the financial reports and supporting records of the Treasurer.

We found that controls over the Village's financial operations were weak. The Board does not require the Treasurer to prepare monthly reports including budget-to-actual schedules. As a result, 13 appropriation accounts were overexpended at year-end by a total of approximately \$21,000. The Treasurer has not filed the required annual financial report with OSC on a timely basis. Further, the Board did not audit, or cause to be audited, the records and reports of the Treasurer. As a result of these weaknesses, the risk is increased that errors or irregularities could occur and remain undetected and uncorrected.

Monitoring

Written policies and procedures are a key component of a Village's internal control environment, as they formally establish and communicate the manner to conduct day-to-day operations of the Village. Written policies also can provide the Board with an effective means of ensuring that financial objectives are being met. For example, the Board is responsible for continually monitoring financial operations and amending the budget, when necessary, to ensure that appropriations are not overspent. Written policies and procedures would establish the reports required by the Board to enable it to monitor financial operations effectively and in a timely manner.

The Board did not establish policies or procedures to effectively monitor the budget during the 2010-11 fiscal year to ensure that appropriations were available before funds were expended. Board members did not receive complete financial information from the Treasurer, such as monthly cash flow schedules, trial balances,

and budget-to-actual reports showing current financial condition throughout the year. Therefore, the Board did not monitor actual results of Village operations against budget estimates during the year. The Board's lack of adequate monitoring during the year resulted in the Board making budget amendments at year-end for all funds rather than during the year. However, the budget amendments were not clearly documented in the Board minutes and the Board did not ensure that the Treasurer made the budget amendments. The minutes contain a general resolution authorizing budget amendments; however, there is no documentation as to the specific amendments that were needed. Furthermore, while the minutes indicate that budget amendments were authorized, the Treasurer never made amendments in the accounting records. In addition, although the Mayor indicated that he reviews bank balances and receives verbal reports on account balances monthly, the Treasurer does not prepare and present formal written reports to the Board.

Because the Board did not establish policies and procedures to obtain and review key financial data on an ongoing basis, it did not have an accurate picture of the Village's financial condition and various appropriation accounts were overexpended at year-end. We reviewed all 41 appropriation accounts used by the Village and determined that 13 appropriation accounts were overexpended during the year (10 in the general fund, two in the water fund, and one in the sewer fund) totaling approximately \$21,000. Actual expenditures for the appropriation accounts in all three funds during 2010-11 totaled approximately \$346,000; thus, 6 percent of total expenditures were overexpended at year-end. For example, one of the appropriation accounts was overexpended in December 2010 and remained overspent by \$1,738 at year end.

The lack of periodic reporting of key financial information including budget-to-actual reports diminishes the Board's ability to monitor and manage the Village's financial resources properly and increases the risk that errors and irregularities may occur and go undetected and uncorrected.

Annual Financial Reports

Annual financial reports (AFR) are essential for the Board to provide adequate oversight of Village operations and to monitor the Village's financial operations. The Treasurer, as the chief fiscal officer, is responsible for preparing and filing the Village's AFR with OSC within 60 days after the close of the fiscal year.

The Treasurer filed the Village's AFR for the fiscal year ending May 31, 2009 with OSC on May 2, 2011, approximately 21 months after it was due. Additionally, as of the completion of our fieldwork, the Village's AFRs for fiscal years 2009-10 and 2010-11 had yet to be

filed. We also found that the records lacked reconciliation of the due-to and due-from account balances between funds that reflect loans between the funds. Additionally, entries for cash receipts and cash disbursements are recorded the month after they occur, based on activity from the bank statement. The incomplete and untimely accounting records contributed to the Treasurer's inability to file the AFR on time.

The failure to file a timely AFR with OSC does not allow the Board and the public the primary tools to monitor the Village's financial affairs.

Annual Audit

Village Law requires that the Board annually audit the Treasurer's reports and supporting records, or cause them to be audited by a Village officer or employee or a certified public accountant. This annual accounting provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Village's fiscal procedures. The annual audit of the Treasurer's financial records also helps the Board to monitor the Treasurer's fiscal activities. The audit of these records provides independent verification that the records have been maintained in accordance with established procedures, transactions have been properly recorded, and cash has been properly accounted for.

The Board was not aware that an annual audit was required, and therefore, did not audit or contract to have the Treasurer's financial records audited as required. Furthermore, the Treasurer indicated that there has never been a review or independent audit of her records while she has held office.¹ The Treasurer also stated that she felt hiring an independent auditor would be too costly for the Village.

The Board's failure to perform an annual audit of the Treasurer's records diminishes its ability to effectively monitor the Village's financial operations and increases the likelihood of errors or irregularities occurring and remaining undetected and uncorrected.

Recommendations

1. The Board should require the Treasurer to provide monthly cash flow schedules, trial balances, and budget to actual reports to monitor the Village's financial condition.
2. The Board and Village officials should ensure that transfers are made and appropriations are available prior to funds being expended.

¹ The Treasurer has been in the position for approximately 30 years.

3. The Treasurer should file the Village's Annual Financial Report with the Office of the State Comptroller in a timely manner.
4. The Board should ensure that an annual audit of the Treasurer's records is performed by the Board or by a Village officer, employee or a certified public accountant, as required by Law.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

MAYOR
Donald A. Yerdon

OFFICE OF
BOARD OF TRUSTEES
Village of Nelliston

Incorporated
as a Village
in 1878

TRUSTEES
Russell Vance
Douglas Bathrick

P.O. Box 305
River Street
Nelliston, NY
13410-0305

CLERK/TREASURER
Lynda D. Conrad

FEBRUARY 24, 2012

[REDACTED]
STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
ONE BROAD STREET PLAZA
GLENS FALLS, NY 12801

RE: VILLAGE OF NELLISTON AUDIT RESPONSE AND CAP

DEAR [REDACTED]:

THIS IS OUR RESPONSE TO YOUR OSC AUDIT REPORT AND AUDIT RESPONSES - CORRECTIVE ACTION PLANS.

THE VILLAGE OF NELLISTON BOARD HAS STARTED A MORE IN-DEPTH REVIEWING OF OUR FINANCIAL RECORDS BY REVIEWING AND INITIALING THE MONTHLY BANK STATEMENTS EACH MONTH. THE ABSTRACTS HAVE ALWAYS BEEN AUDITED AND SIGNED EACH MONTH. THE BOARD WILL INSPECT AND INITIAL ALL THE CASH FLOW ACCOUNTS (CASH IN AND CASH OUT) QUARTERLY AND INITIAL EACH ACCOUNT AT THAT TIME.

OUR BUDGET AMENDMENTS WILL BE DOCUMENTED IN THE MONTHLY MINUTE BOOK, BY RESOLUTIONS, AS NEEDED. (AS IN THE PAST WE WERE TOLD BY OUR FINANCIAL ADVISOR THAT MAKING ACCOUNT ADJUSTMENTS AT THE END OF EACH YEAR WERE ACCEPTABLE, AS A BUDGET IS ONLY A GUIDE, BUT TO BE SURE THE TOTAL BUDGET IS NOT OVERSPENT).

OUR CLERK/TREASURER MAKES AND HAS ALWAYS MADE AVAILABLE ALL CASH FLOW ACCOUNTS (CASH IN AND CASH OUT) AVAILABLE AT EVERY MONTHLY VILLAGE BOARD MEETING, ALTHOUGH THEY ARE NOT ROUTINELY LOOKED AT, BUT WILL BE LOOKED AT AND INITIALED FROM THIS POINT FORWARD, QUARTERLY.

THE LATENESS OF THE VILLAGE ANNUAL REPORTS HAVE BEEN REPORTED TO YOUR OFFICE NUMEROUS TIMES (DUE TO UNFORTUNATE CIRCUMSTANCES, AN ACCIDENT OF OUR CLERK/TREASURER AND A MAJOR MEDICAL PROBLEM WITH OUR FINANCIAL ADVISOR - ANNUAL REPORT PREPARER, WHICH RESULTED IN HIS RESIGNATION IMMEDIATELY.

AS FOR THE PREPARATION AND FILING OF THE ANNUAL REPORT NOT BEING COMPLETED, WE ADMIT WE ARE LATE, BUT HAVE BEEN ASKING FOR HELP FROM THE COMPTROLLER'S OFFICE TO BRING US UP TO DATE WITH OUR FILINGS.

WE WILL BE HIRING AN OUTSIDE CONSULTANT TO AUDIT THE CLERK/TREASURER'S SUPPORTING RECORDS, AS AN ADDED MEASURE OF ASSURANCE THAT OUR FINANCIAL RECORDS WILL CONTINUE TO BE ACCURATE AND THE ANNUAL REPORT WILL BE PREPARED.

WE WOULD LIKE TO COMMENT THAT OUR ANNUAL REPORT (WE ALSO HAD PROBLEMS RECEIVING OUR PAPER FORMS FROM YOUR OFFICE, AS WE ARE NOT YET COMPUTERIZED) AND ALSO THE CLERK/TREASURER'S RECORDS AND COLLECTORS RECORDS WERE ANNUALLY AUDITED BY OUR FINANCIAL CONSULTANT AND THE ANNUAL REPORT FILED UP UNTIL OUR CLERK/TREASURER HAD HER ACCIDENT AND FELL BEHIND ALONG WITH THE MAJOR MEDICAL PROBLEMS OF OUR FINANCIAL ADVISOR WHO HAD TO STOP WORKING. AS SOON AS WE HAVE RECEIVED SOME HELP FROM YOUR OFFICE (OR SOMEONE ELSE) TO BRING US UP TO DATE, WE WILL BE LOOKING FOR INDEPENDENT VERIFICATION OF OUR RECORDS BY AN OUTSIDE PERSON.

WE HAVE HAD THE COMPTROLLER'S AUDITING PEOPLE LOOKING AT OUR RECORDS SINCE FEBRUARY, 2011 AND WE FEEL IT IS IMPORTANT FOR US TO FIND AN INDEPENDENT PERSON TO VERIFY OUR RECORDS. AS SOON AS POSSIBLE.

OUR CLERK/TREASURER, COLLECTOR AND BOARD WELCOMED THE COMPTROLLER'S AUDIT PROCESS STARTING IN FEBRUARY, 2011 AND WILL HOPEFULLY BE ENDING SOMETIME SOON IN 2012, AS WE ALL FEEL WE HAVE NOTHING TO HIDE. WE WERE ALL COMPLETELY HONEST WITH YOUR PEOPLE AND TRIED TO COOPERATE THE BEST WE COULD.

WE HAVE HAD CRITICAL TIMES, BUT KEPT EVERYTHING GOING, WITH NO MAJOR PROBLEMS OR INTERRUPTIONS, AND WE ARE PROUD OF THAT.

WE KNOW OUR MAJOR PROBLEM WITH A FORMER CLERK/TREASURER STEALING FROM OUR VILLAGE WILL "MARK" THE VILLAGE OF NELLISTON

FOREVER WITH THE COMPTROLLER'S OFFICE, BUT IN TURN WE ARE GRATEFUL TO THE COMPTROLLER'S OFFICE AUDITOR FOR FINDING THAT MAJOR PROBLEM. WE ALL WILL CONTINUE TO DO OUR BEST FOR OUR SMALL VILLAGE, BECAUSE IT IS "OUR VILLAGE" TOO, AND WE ARE PROUD TO LIVE AND SERVE HERE.

WE FEEL YOUR AUDIT REPORT WAS CRITICAL OF THE VILLAGE OF NELLISTON, AND WE WILL TRY TO CORRECT AND COMPLY WITH YOUR SUGGESTIONS.

SINCERELY,

A handwritten signature in cursive script, appearing to read "Don A. Yerdon".

DONALD A. YERDON
MAYOR
VILLAGE OF NELLISTON

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our audit objective was to review the Village's internal controls over select financial operations related to Board oversight. We performed an initial assessment of the internal controls to determine those aspects of Village operations most at risk. Our initial assessment included evaluations of the following areas: control environment, accounting system, financial condition, budgeting, cash receipts, deposits and investments, purchasing, claims processing, payroll, real property taxes, user charges, fixed assets, capital projects, Village Clerk-Treasurer, and information technology. We examined the Village's records and reports for the period June 1, 2010, to June 30, 2011.

To accomplish our objective, our procedures included the following:

- We reviewed Board minutes, assessed the Board's procedures, and interviewed Village officials to gain an understanding of the procedures used to account for the Village's financial operations.
- We reviewed the Village's internal controls over financial operations and reviewed accounting records including budgets, check registers, general and subsidiary ledgers, bank reconciliations, and cash receipts and disbursements.
- We compared budgeted appropriations to ending appropriation account balances for the general, water, and sewer funds for the 2010-11 fiscal year and determined when over expenditures occurred.
- We interviewed the Treasurer and reviewed our online database records to determine if the AFRs were filed on a timely basis.
- We interviewed the Treasurer to determine if required annual audits of her records were conducted.

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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OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

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

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