



Village of North Collins

Cash Disbursements

Report of Examination

Period Covered:

June 1, 2010 — December 20, 2011

2012M-12



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
CASH DISBURSEMENTS	5
Claims Audit	5
Payroll	6
Records and Reports	7
Annual Audit	9
Recommendations	10
APPENDIX A Response From Local Officials	11
APPENDIX B Audit Methodology and Standards	13
APPENDIX C How to Obtain Additional Copies of the Report	15
APPENDIX D Local Regional Office Listing	16

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2012

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and 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 North Collins, entitled Cash Disbursements. 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 North Collins (Village) is located in Erie County and has approximately 1,100 residents. The Village is governed by an elected Board of Trustees (Board) comprised of four Trustees and a Mayor. The Board is responsible for the general management and control of the Village's financial affairs, which includes designing and implementing controls to safeguard Village assets. The Mayor is the chief executive officer and is responsible for the appointment of the Clerk-Treasurer¹ and the day-to-day management of the Village under the direction of the Board. The Clerk-Treasurer is the chief fiscal officer, responsible, among other things, for maintaining a record of disbursements, reconciling cash balances to bank statements, and providing the Board with timely, accurate and complete financial information.

The Village's general fund appropriations for the 2011-12 fiscal year are approximately \$746,000 and are funded primarily with real property taxes. Water fund appropriations total \$210,000 and are funded primarily with user charges.

Objective

The objective of our audit was to examine the Village's internal controls over cash disbursements. Our audit addressed the following related question:

- Did the Board design controls to ensure that cash disbursements were properly authorized, recorded, reported and proper Village expenditures?

Scope and Methodology

We examined internal controls over the Village's cash disbursements for the period June 1, 2010 to December 20, 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 agreed with our recommendations and indicated they plan to initiate corrective action.

¹ Subject to the Board's approval

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 Village to make this plan available for public review in the Clerk-Treasurer's office.

Cash Disbursements

The Board must audit all claims prior to disbursement and establish an internal control system that provides reasonable assurance that all cash disbursements are authorized. To ensure that Village employees receive the compensation that they are entitled to, the Board must document its authorization of annual salaries. The Board also should segregate duties so that one individual is not responsible for incompatible phases of the cash disbursement process. Where there is only one full-time² employee who is primarily responsible for financial activity, the Board should implement compensating controls. These types of compensating controls include reviewing bank reconciliations and comparing budgeted to actual results of operations. Further, the Board must annually audit the Clerk-Treasurer's records to ensure that all Village funds have been properly accounted for.

The Board should improve its oversight over the Village's cash disbursements. For example, the entire Board does not audit all claims prior to payment as required, and Village officials do not prepare a salary schedule detailing salary amounts the Board approved for Village officials and employees. The Clerk-Treasurer is the only full-time employee responsible for the Village's financial activity, and she performs incompatible duties. The Board has not instituted compensating controls to provide sufficient oversight, or performed an annual audit of the Clerk-Treasurer's records. Further, the Board does not receive monthly financial reports such as a Treasurer's report or a budget status report, and no one reviews the Clerk-Treasurer's bank reconciliations. Due to these deficiencies, there is an increased risk that inappropriate transactions could occur and not be detected, and the Board cannot be assured that all cash disbursements are for valid and necessary Village purposes.

Claims Audit

The Board is statutorily required to audit all claims prior to payment. The audit and approval of claims should ensure that the claims are properly authorized, supported by appropriate documentation and represent valid Village purposes. After this audit is conducted, the Clerk-Treasurer should record the claim numbers, and the amounts approved in the Board minutes and on the warrant.³ The Mayor certifies the warrant authorizing and directing the Clerk-Treasurer to pay the amounts approved by the Board. The Clerk-Treasurer, as

² The Village employs a part-time deputy clerk, who assists with the collection of water billings and taxes.

³ A warrant is a listing of claims approved for payment by the Board.

the chief financial officer, should ensure that no payments are made without Board approval.⁴

We found that the Board improperly appointed one Trustee to audit Village claims. The Clerk-Treasurer stated that the claims are brought to the Board meetings for all of the Trustees to review; however, there is no evidence that the other Trustees actually review and approve each claim. In addition, the dollar amount listed as being approved in the minutes does not correspond to the amount on the warrant. For example, warrant 2011-8 was approved at the March 1, 2011 Board meeting in the total amount of \$74,021. However, a warrant totaling \$74,021 did not exist. This amount was the total of a check register dated February 8, 2011 for \$33,947, a warrant dated February 18, 2011 for \$7,007, and an invoice audit journal dated February 25, 2011 totaling \$33,067; all were signed by the Mayor prior to the Board meeting at which the claims were made available for review by the Board. The Board was provided these claims for review after they were paid instead of for approval for payment.

The Clerk-Treasurer indicated that the Board did not audit all claims prior to payment because certain claims were received in between Board meetings and needed to be paid. Although Village Law allows certain types of claims to be paid prior to Board audit,⁵ 33 of the 40 claims on the documents discussed above did not meet the criteria specified in the statute. As a result, the Clerk-Treasurer was allowed to initiate, pay and record the payment of claims without Board approval. In addition, when the Board does not review the minutes to verify that only those claims that have been listed as approved for payment agree with the payments actually made, and when the Mayor does not verify that only claims that have been approved for payment by the Board are listed on the warrants authorizing the Clerk-Treasurer to make payment, the risk for unauthorized payments to occur and not be detected significantly increases.

Due to these internal control weaknesses, we reviewed 15 general and water fund claims totaling \$29,932⁶ and found no unusual or unsupported payments, and all payments appeared to have been for legitimate Village purposes.

Payroll

The Board is responsible for authorizing the rates of compensation for all individuals employed by the Village. Village Law requires that the annual budget include a schedule of wages and salaries for each office or position of employment.

⁴ Exceptions to the Village Law audit requirement include compensation paid to officers and employees, debt, and certain contracts exceeding one year.

⁵ The Board may by resolution authorize payment in advance of audit of claims for public utility services, postage, freight and express charges.

⁶ We randomly selected these claims for review.

We found that the 2010-11 and 2011-12 fiscal year budgets did not have the schedule of wages and salaries required by law. Village officials indicated that the Board agrees on the salaries when it develops the budget, but Village officials do not prepare a schedule to document the compensation approved by the Board. As such, no documentation supported the amounts the Clerk-Treasurer paid certain Village employees.

We reviewed the salary appropriations in the 2010-11 final budget status report and found that three general fund salary appropriations totaling \$4,946 and one water fund salary appropriation totaling \$621 were over-expended, including the Clerk-Treasurer's salary appropriation by \$777. The Clerk-Treasurer stated that these payments were attributable to perfect attendance that was not budgeted and for coverage by an employee while another was injured. Nevertheless, this compensation, and any budgetary transfers necessary to ensure that sufficient appropriations were available to fund the payments, should have been approved by the Board prior to these payments being made.

The lack of written Board authorization documenting employee compensation increases the risk that costs will be incurred unnecessarily and not as the Board intended.

Records and Reports

Village officials are responsible for ensuring that duties are segregated so that no single individual controls most or all phases of a transaction. When circumstances do not permit for an adequate segregation of duties, the Board should implement compensating controls, such as reviewing the accounting records periodically to ensure they are up-to-date, complete and accurate; and reviewing bank statements, reconciliations, and other documentation to ensure that cash disbursements agree with the Board's authorizations.

The duties of disbursing, recording, and reporting moneys in the Clerk-Treasurer's office are not segregated. The Board did not institute compensating controls such as a review of monthly financial reports, including bank reconciliations or budget status reports. The Clerk-Treasurer did not provide these reports to the Board for review.

Bank Reconciliations – The reconciliation of bank account balances to general ledger cash balances is an essential control activity. This process allows for the timely identification and documentation of differences between the Village's and the bank's cash balances. Bank reconciliations provide a unique opportunity for an internal verification of cash receipt and disbursement transactions. Without accurate and complete bank reconciliations performed and reviewed by an individual independent of the cash custody function, Village

officials cannot have a reasonable level of assurance that the accounting records are correct or that moneys are accounted for properly.

We judgmentally selected and reviewed three months of bank reconciliations⁷ and found that there was no indication of review by any other Village official. We found no significant concerns with two of three months we selected. However, our review of the October 2010 reconciliation found that four checks totaling \$24,755 cleared the bank in October 2010 but were not posted to the ledger until November 1, 2010 and were not approved for payment by the Board until November 18, 2010. One of these four checks, in the amount of \$4,321, was posted to the appropriation ledger as \$2,000, and the balance was posted to accounts payable. Further, a deposit for water fund receipts collected on September 9, 2010 was not posted to the ledger until December 31, 2010.⁸ Had someone other than the Clerk-Treasurer reviewed her bank reconciliations and accounting records, the disbursements made without Board approval and the inaccuracy of the ledgers would likely have been identified.

Budget Status Reports – Monthly reports that compare budgeted and actual results provide the Board with the information necessary to monitor Village fiscal operations, compliance with the adopted budget, and the Clerk-Treasurer’s activities. Village Law requires that no expenditure be made unless an appropriation is available for it.

We found no record in the Board minutes of the adoption of the 2010-11 budget. The Clerk-Treasurer stated that this was due to an administrative oversight. We did find that the Board recorded its adoption of the 2011-12 budget in its meeting minutes.

The Clerk-Treasurer does not prepare monthly budget status reports for submission to the Board. The Clerk-Treasurer stated that the Village’s financial software does not allow individual monthly reports to be retained; rather, the software reflects budget status reports as of the date they are viewed or printed. Therefore, budget status reports would need to be printed at the end of each month. The Clerk-Treasurer provides a monthly budget status report to the Mayor, but the Mayor does not retain it, and the Clerk-Treasurer does not keep this report on file.

We compared the 2010-11 year end budget status report to a copy of the budget provided to us by the Clerk-Treasurer and found that certain budget amounts did not match. The budget status report understated

⁷ See Appendix B, Audit Methodology and Standards for details on our sample selection.

⁸ The Clerk-Treasurer stated this was due to problems with the Village’s financial software program.

the general fund estimated revenues by \$103,271 and general fund appropriations by \$5,939. The budget status report also understated water fund appropriations by \$5,100. The Clerk-Treasurer stated that, because the Board did not review these reports, she did not load all of the budget data into the financial software. She also stated that she ensured that the actual revenues and expenditures were correct because she used this report for tracking actual results. The 2010-11 actual revenues and expenditures on the budget status report for both funds agreed with what was reported on the annual update document filed with the Office of the State Comptroller.

We also compared the Clerk-Treasurer-provided copies of the 2010-11 budget to actual year end results and found that total general fund revenues and water fund expenditures had unfavorable variances of \$6,999 and \$25,945, respectively. In addition, the 2010-11 year-end budget status report reflected four general fund appropriation accounts that were overexpended by a total of \$5,528 and two water fund appropriation accounts that were overexpended by \$35,621. Had the Board been provided accurate monthly status reports, it could have monitored operations to ensure that sufficient appropriations were available for expenditure.

In addition, the 2010-11 budget included \$10,415 intended to increase certain general fund reserves. However, the reserves were actually increased by \$31,914. There was no indication that the additional \$21,499 transferred into the reserves in 2010-11 was authorized by Board action. Further, \$36,048 was transferred into a water fund reserve that was not approved by the Board until the next fiscal year. Had the Board requested and reviewed accurate monthly reports, it could have found and questioned the unauthorized increases recorded by the Clerk-Treasurer.

Annual Audit

The Board is required to annually audit the Clerk-Treasurer's records and reports, or cause them to be audited by a Village officer or employee, or an independent auditor. An annual audit serves as an important internal control over cash disbursements by providing independent verification that transactions are properly recorded and reported. It also provides Board members with an added measure of assurance that the Clerk-Treasurer's financial records and reports contain reliable information on which to base management decisions. An annual audit is especially important when segregation of duties is limited, as is the case here.

The Board did not audit or contract with an independent auditor to audit the Clerk-Treasurer's financial records and reports for the 2010-11 fiscal year, as required. This diminishes the Board's ability to monitor the Village's financial operations and increases the risk that

errors, irregularities, fraud or abuse may occur and not be detected and addressed in a timely manner.

Recommendations

1. The Board should audit all claims presented for payment and ensure that only those claims approved for payment are documented in the minutes.
2. The Clerk-Treasurer should include on the warrant all claims audited and approved for payment by the Board. The Mayor should certify the warrant.
3. The Board should include in the budget a schedule of compensation for all Village officials and employees.
4. The Board should ensure that the Clerk-Treasurer pays officials' and employees' compensation at the rates approved by the Board.
5. The Clerk-Treasurer should provide the Board a monthly budget status report and any other financial reports requested.
6. The Board should review monthly budget status reports to monitor Village operations, and ensure that appropriations are available prior to expenditure and transfers to reserves are in accordance with Board authorizations.
7. The Board should routinely monitor the Clerk-Treasurer's work by reviewing bank reconciliations and accounting records/reports to ensure that all cash disbursements are supported by appropriate documentation.
8. The Board should perform, or cause to be performed, an annual audit of the Treasurer's records and document the results of the audit in the minutes.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

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Mr. Robert Meller, Chief Examiner
Office of State Comptroller
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Meller:

After review of your tentative findings and recommendations contained in the draft audit report, please be advised that we do not disagree with your report.

Thank you for your kind consideration in this matter.

Respectfully yours,

VILLAGE OF NORTH COLLINS



Vincent George
Mayor

APPENDIX B

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, and payroll and personal services. During the initial assessment, we interviewed appropriate Village officials and Department of Public Works staff, performed limited tests of transactions, and reviewed pertinent documents, Board minutes, and financial records and reports.

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 cash disbursements for further audit testing.

The objective of our audit was to determine whether the internal controls over cash disbursements were appropriately designed and operating effectively for the period June 1, 2010 to December 20, 2011. To achieve our objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Village officials regarding policies and procedures related to cash disbursements, and reviewed reports from the Village's accounting software.
- We reviewed Board meeting minutes to identify evidence of Board oversight for the cash disbursements process. We looked for evidence of the Board's audit of claims, authorization of employee pay rates, and appointment of the Clerk-Treasurer. We reviewed the minutes to determine what, if any, financial reports the Board received to fulfill its oversight duty, as well as for evidence of the Board's adoption of the annual budget and reserve fund transfers. We also reviewed the minutes to determine if the Board had performed an annual audit of the Clerk-Treasurer's records.
- We compared budget to actual amounts for the general and water funds for the 2010-11 fiscal year to determine if actual results were within appropriations.
- We tested 30 randomly-selected cash disbursements (15 from the general and water fund, and 15 from the payroll, and trust and agency fund), to determine if they had been properly approved prior to disbursement.
- We traced cancelled checks for the 30 disbursements to either vouchers and reports, or payroll records and reports to help determine if they were proper Village expenditures.
- We verified three months of bank reconciliations to supporting records and determined if they were reviewed by anyone other than the Clerk-Treasurer who performed the reconciliation. We judgmentally selected a bank reconciliation at the end of the most recently completed fiscal

year, the most recent one available during our field work, and one whose balance did not agree with the ledger.

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 C

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