Office of the New York State Comptroller

Division of Local Government
& School Accountability

Village of Otisville

Accounting for Fire Protection District Funds

Report of Examination

Period Covered:

June 1, 2010 — November 9, 2011

2012M-157

Thomas P. DiNapoli

Table of Contents

		Page
AUTHORITY LETTER		2
INTRODUCTION		3
	Background	3
	Objective	3
	Scope and Methodology	3
	Comments of Village Officials and Corrective Action	4
BOARD RESPONSIBILITIES		5
	Cash Disbursements Records	5
	Reserve Funds Records	6
	Annual Audit	7
	Recommendations	7
APPENDIX A	Response From Village Officials	9
APPENDIX B	OSC Comment on the Village's Response	12
APPENDIX C	Audit Methodology and Standards	13
APPENDIX D	How to Obtain Additional Copies of the Report	14
APPENDIX E	Local Regional Office Listing	15

State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

November 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 Otisville, entitled Accounting for Fire Protection District Funds. 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 Otisville (Village) is located in Orange County, covers 20 square miles, and has a population of 1,068. The Village provides various services to its residents, including general government support, street maintenance and improvement, water services, fire protection, and snow removal. The Village primarily funds its annual budget with real property taxes, revenue from fire protection contracts, and water rents. The Village is governed by an elected Board of Trustees (Board) comprising a Mayor and four Trustees. The Board is the legislative body responsible for managing Village operations, including the Fire Department.

The Mayor serves as the Village's chief executive officer. The Mayor appoints the Clerk-Treasurer and Deputy Clerk-Treasurer to manage the Village's day-to-day operations. The Clerk-Treasurer and Deputy Clerk-Treasurer are responsible for the receipt, disbursement, and custody of Village moneys, and the maintenance of accounting records.

The Village entered into a contract with the Town of Mount Hope (Town) to provide fire protection for most Town residents living within the fire protection district, with the exception of the Howells area, which is covered by the Howells Fire District. The contract amounts for fiscal years 2010 and 2011 were $337,971 and $304,665, respectively. The Village also received a $25,000 grant for fire protection from New York State during the 2011 fiscal year.

The Village's 2010-11 budgeted general fund expenditures were approximately $965,000, and the fire department's expenditures were approximately $434,000. These expenditures were funded primarily with real property taxes and State aid.

Objective

The objective of our audit was to examine the Village's records for fire protection district funds. Our audit addressed the following related question:

- Were the Village's records for fire protection district funds accurate and complete?

Scope and Methodology

We examined the Village's financial operations related to fire protection district funds for the period June 1, 2010 through November 9, 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 C of this report.

Comments of Village 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. Except as indicated in Appendix A, Village officials generally agreed with the findings in our report and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue Village officials raised in their response.

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 Responsibilities

The Board is responsible for overseeing the Village's financial operations and safeguarding the Village's financial resources. The Board fulfills this responsibility, in part, by ensuring that financial transactions are properly authorized, recorded and reported, and that records are accurate and complete. We used Board resolutions and applicable rules and regulations as standards for assessing whether transactions were properly authorized and reported, and whether records were accurate and complete.

We identified some improper accounting practices and questionable transactions relating to the Village's fire protection district funds. Cash disbursement records were not accurate and complete. The Clerk-Treasurer and Deputy Clerk-Treasurer did not number checks in the accounting software in sequential order, and 204,265 check numbers were omitted from the accounts payable check registers for fiscal years 2009-10 and 2010-11. Similarly, 3,663 check numbers were missing from the 2009-10 and 2010-11 fiscal years' payroll check registers. We also found 22 instances of duplicate check numbers used. Village officials could not locate records authorizing the establishment of two fire reserves and the purpose and use of the reserves. These discrepancies occurred because the Board did not properly monitor the Village's financial transactions. The Board did not review the Clerk-Treasurer's and Deputy Clerk-Treasurer's work for accuracy, and did not audit the Clerk-Treasurer's accounting records, as required by Village Law. The Board's lack of oversight exposes the Village to the risk of fraud and irregularities.

Cash Disbursements Records

Most computerized accounting systems require unique, sequentially-numbered transactions, which enable Village officials to monitor transactions from their inception through the accounting records and reports. To ensure that check disbursements are accurate and complete, Village officials should maintain sequential check numbers within the accounting system and retain original checks, whether used or voided.

We reviewed the Village's payroll and cash disbursement registers. Each register is a list of checks showing vendor names, check amounts, check dates and check numbers; however, the registers did not include a description that could be used to determine whether a particular disbursement was related to fire protection activities. We also found the registers did not include all check numbers that were issued. Check numbers were omitted from the check register, issued out of sequence, or duplicated. We found that 204,265 check numbers

were omitted from the accounts payable check register for fiscal years 2009-10 and 2010-11. Also, 3,663 check numbers were missing from the fiscal years 2009-10 and 2010-11 payroll check registers.

These significant discrepancies occurred because the Clerk-Treasurer and Deputy Clerk-Treasurer did not number the checks in sequential order. For example, during fiscal year 2009-10, the accounts payable register began with check number five and ended with check number 91,109; during fiscal year 2010-11, the accounts payable check register began with check number 7,002 and ended with check number 9,020. The Clerk-Treasurer and Deputy Clerk-Treasurer issued check number five at the beginning of fiscal year 2009-10; check number 821 was the next check issued. There were no records accounting for check numbers six through 820. This situation occurred throughout both fiscal years, resulting in the large number of unaccounted-for check numbers.

We also found 22 instances of duplicate check numbers used. The duplicate checks were written on different dates, for different amounts, and to different payees. For example, check number 3,460 was issued to two vendors. One check was issued to the New York State Retirement System on November 20, 2009, for $30,846. The second check was made out to another vendor on December 4, 2009, for $164.

These discrepancies occurred because the Clerk-Treasurer and Deputy Clerk-Treasurer were responsible for the entire cash disbursements process, and no one reviewed their work to ensure that the checks were accurate and issued in sequential order. The Clerk-Treasurer stated that the financial software system allowed them to enter the same check numbers more than once, which resulted in duplicate check numbers. Had someone periodically reviewed the Clerk-Treasurer's and Deputy Clerk-Treasurer's work, these duplicate and missing check numbers could have been detected and corrected.

Accountability over cash disbursements is greatly compromised when check numbers are issued out of sequence, duplicated, missing, or omitted. As a result, the risk is increased that moneys could be misappropriated without detection or correction.

Reserve Funds Records

Reserve funds may be established by Board action, pursuant to various laws, and are used to finance specific purposes. The statutes pursuant to which the reserves are established determine how the reserves may be funded, expended or discontinued. When used properly and funded in reasonable amounts, reserves provide a degree of financial stability. The Board must maintain appropriate records to clearly communicate to the public how these reserve funds will be used.

The Village had five fire reserve bank accounts that had activity during the five years of the fire protection agreement with the Town: Air Pack Reserve Fund, Village Fire Truck Fund, Firefighter Uniform Reserve Fund, Building Reserve Fund, and Fire Rescue Equipment. The five reserve funds had a combined balance of $78,345 as of May 31, 2011. Village officials could only locate records for three of the five reserves to show that they established the reserves, and to document the purpose and use of the reserves. The Clerk-Treasurer said that the reserves and bank accounts were established before she took office. Therefore, she was not aware of the reason the Board resolutions establishing two reserves were missing.

Further, one of these reserves (the Village Fire Truck reserve) is no longer needed because the Village purchased the fire truck. While the Village did not maintain records of the date the fire truck was purchased, we found a check to the vendor dated September 3, 2003, for $200,000. This reserve had an ending balance of $31,937 on May 31, 2011.

Without proper documentation authorizing these reserves and establishing their purpose, there is no assurance that the Village is properly accumulating funds in the reserves or using the reserves for their stated purposes. Further, continuing to fund reserves that are no longer necessary restricts the use of Village funds for other necessary purposes.

Annual Audit

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

The Board did not audit or contract with an independent auditor to audit the Clerk-Treasurer's financial records and reports for the fiscal years ending May 31, 2010 and May 31, 2011, as required by law. This lack of oversight diminishes the Board's ability to monitor financial operations and could result in the Board's failure to detect cash receipt or disbursement transactions that were not properly recorded or reported by the Clerk-Treasurer and the Deputy Clerk-Treasurer.

Recommendations

1. The Board should ensure that the Clerk-Treasurer and the Deputy Clerk-Treasurer issue checks in sequential order and maintain a list of checks issued.

2. The Board should ensure that there is an independent review of all canceled checks, and investigate any checks that are missing and checks that have been issued with the same check number.

3. The Board should ensure that it has all resolutions for reserve funds on file to document that the reserves have been properly established.

4. The Board should ensure that all reserves are reviewed on an annual basis to assess if their balances are reasonable. The Board should close all reserves that have met their purpose and are no longer being used.

5. The Board should audit or cause an audit of the Clerk-Treasurer's records on an annual basis.

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

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

Village of Otisville

66 Highland Avenue
Otisville, NY 10963
845-386-5172
Fax 845-386-4519
villageclerk@villageofotisville.com

Brian W. Wona
Mayor

Janine Beck
Village Clerk

Christopher J. Ellis
State of New York
Office of the State Comptroller
110 State Street
Albany, NY12236

Dear Mr. Ellis:

The Mayor and Board of Trustees of the Village of Otisville have reviewed your preliminary Report of Examination, 2012M-157 covering the period of June 1, 2010 – November 9, 2011 related to the fire protection district.

Cash Disbursements Records

A major discrepancy that your office identified was in regard to the beginning and ending check numbers. This was due to typographical errors; the date was used instead of the check number. In addition, check number discrepancies for the Village checking accounts occurred when the Village switched banks in January 2010. All other gaps in check numbers were due to printing errors. The checks were voided manually and filed. During the audit the Clerk-Treasurer was not asked to provide these documents.

See Note 1 Page 12

The duplicate check numbers were discovered, reviewed, and addressed while doing the bank reconciliation. After research it was noted that while it did make the bank reconciliation more difficult, it was fully audited and proven that there was no discrepancy. The computer software company has been contacted and can't provide an explanation of how this occurred.

See Note 1 Page 12

The current computer program does not allow for details on the check register. Details can be found on the abstract which is presented to the Village Board along with the vouchers and actual check prior to each board meeting.

To prevent any of these issues from occurring again, the Clerk-Treasurer has started a log with copies of all voided checks as well as the check registers. The log is checked prior to any new checks being issued.

Reserve Funds Record

The Village Board passed a new resolution to re-establish all reserve accounts and will re-establish all reserve accounts as part of the Village annual reorganization meeting. This will ensure that all reserve accounts meet their purpose and are properly established and/or closed.

Annual Audit

The Village Board currently is auditing cash receipts and bank reconciliation every quarter per the Correction Action Plan which was implemented by the Village Board on September 2, 2010. In addition, the Village Board will now audit all backup and supporting documentation the Village Accountant uses to prepare our annual report prior to the report being submitted to your office.

On behalf of the entire Village Board, I would like to thank you for your time. We are committed to maintaining a system of internal controls over financial operations to ensure appropriate accountability and believe that, with your assistance and guidance, this can be accomplished.

Respectfully,

Brian W. Wona, Mayor

APPENDIX B

OSC COMMENT ON THE VILLAGE'S RESPONSE

Note 1

We met with the Clerk-Treasurer continuously during the course of the audit and discussed the missing check numbers in detail. The Clerk-Treasurer provided various reasons for the discrepancies. While she asserted that certain gaps resulted from printing errors, she could not produce copies of the voided checks. Other gaps in the check numbers occurred because the Clerk-Treasurer and the Deputy Clerk-Treasurer issued manual checks out of sequential numeric order. The Clerk-Treasurer also told us that the financial software allowed a check number to be entered more than once, which caused the duplicate check numbers.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine whether the Village's records for fire protection district funds were accurate and complete. To accomplish our objective, we interviewed Village officials, performed limited tests of transactions, and reviewed pertinent documents, such as Board minutes, bank statements, and available financial documents and records. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected the Clerk-Treasurer's records and reports related to the fire protection district for further testing. Our procedures included the following:

We performed an assessment of the internal controls in place over financial record keeping.

We interviewed Village officials and reviewed records and documents to determine whether adequate records were available, and where and how the records were maintained; whether the Clerk-Treasurer provided monthly financial reports to the Board and filed annual financial reports with the Office of the State Comptroller; and whether the Board audited the Clerk-Treasurer's records and reports annually.

We conducted tests and analyses of the Clerk-Treasurer's records, including a scan of the check register, to determine if checks were issued out of sequence, if checks were entered twice or omitted, and if voided checks were properly handled.

We obtained and reviewed billing records from the Town and the Village's fire department's bank statements to determine what the Town paid the Village for providing fire protection services during 2010 and 2011, and what moneys the Village deposited from the Town.

We traced 36 check numbers missing from the payroll and cash disbursement check registers to bank statements to determine whether the checks had been cashed and who cashed them.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
http://www.osc.state.ny.us/localgov/

APPENDIX E

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

Andrew A. SanFilippo, Executive Deputy Comptroller
Steven J. Hancox, Deputy Comptroller
Nathaalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE
H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE
Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE
Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin, Fulton, Hamilton, Montgomery, Rensselaer, Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE
Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE
Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange, Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE
Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe, Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE
Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AND REGIONAL PROJECTS
Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313