



Village of Sodus Board Oversight and Claims Audit

Report of Examination

Period Covered:

June 1, 2009 — November 4, 2011

2012M-42



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2012

Dear Village Officials:

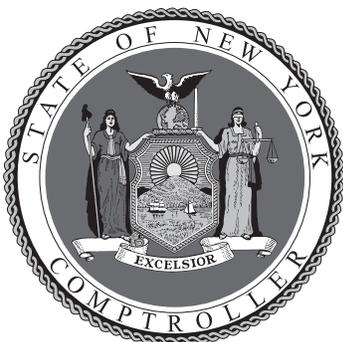
A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments 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 the Board of Trustees 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 Sodus, entitled Board Oversight and Claims Audit. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Village of Sodus (Village) is located in the Town of Sodus, Wayne County and serves approximately 1,800 residents. The Village is governed by an elected Board of Trustees (Board) which is comprised of a Mayor and four Trustees, all of whom are elected for four-year terms. The Board is responsible for the general oversight of the Village's operations. The Mayor is the chief executive officer, and the Village Clerk-Treasurer is the chief fiscal officer.

The Village provides a variety of services to the community, including fire and police protection, street maintenance, snow removal, water distribution, water and sewage treatment, and other general government services. The budget for the 2010-11 fiscal year was \$819,139 for the general fund and \$533,670 and \$394,219 for the water and sewer funds, respectively. These expenditures were funded primarily with revenue from real property taxes, State aid, sales tax and user charges.

Scope and Objectives

The objectives of our audit were to examine the Board's oversight activities and the established internal controls over the Village's financial operations for the period June 1, 2009, to November 4, 2011. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of financial operations to safeguard Village assets?
- Did the Board adequately audit claims and ensure that there was sufficient documentation to support the payment of claims?

Audit Results

The Board is not properly overseeing the Village's financial operations. The Board has not established, or reviewed and updated, policies as required by law and sound business practices. In addition, the Board did not adopt structurally balanced budgets or require the Clerk-Treasurer to provide timely monthly financial reports to properly monitor the Village's fiscal condition. The Board procured an annual audit of the Clerk-Treasurer's records and reports. However, they failed to ensure the timely receipt of the report and did not implement adequate corrective action to address the external auditor's repeated recommendations. Finally, the Board did not segregate the Clerk-Treasurer's duties or institute compensating controls, where necessary. As a result, there is an increased risk that fraud or misappropriation could occur and not be detected or corrected.

The Board did not audit all claims and ensure that all payments were supported by adequate documentation and were in compliance with the Village's procurement policy. The Village paid claims totaling approximately \$2.9 million during our audit period. Village officials told us the Board generally did not audit individual claims prior to payment, but instead only reviewed and approved the abstracts¹ presented by the Clerk-Treasurer at monthly meetings. The Clerk-Treasurer stated that she provides the claims that do not have department-level approval, or are for an unusual purchase, to the applicable Board liaison² for review and approval, prior to submitting them to the Board for payment approval. Because claims were not routinely approved by the Board, payments could have been made for goods and services that were not needed or cost more than necessary.

Comments of Village Officials

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

¹ A list of claims, which includes the amounts claimed, the account codes, and the fund to be charged

² At the annual organizational meeting, the Board appoints Trustees as Commissioners and Deputy Commissioners for each functional level of Village operations to provide Board oversight. Examples of these positions include Commissioners and Deputy Commissioners of Fire, Water, Sewer, Finance, Streets and Sidewalks, Personnel, Police, and Municipal Buildings.

Introduction

Background

The Village of Sodus (Village) is located in the Town of Sodus, Wayne County and serves approximately 1,800 residents. The Village is governed by an elected Board of Trustees (Board) which is comprised of a Mayor and four Trustees, all of whom are elected for four-year terms.

The Board is responsible for the general oversight of the Village's operations. The Mayor is the chief executive officer, and the Village Clerk-Treasurer is the chief fiscal officer. As the chief fiscal officer, the Clerk-Treasurer is responsible for the 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 Clerk-Treasurer also share the responsibility for ensuring that internal controls are adequate and working properly.

The Village provides a variety of services to the community, including fire and police protection, street maintenance, snow removal, water distribution, water and sewage treatment, and other general government services. The budget for the 2010-11 fiscal year was \$819,139 for the general fund and \$533,670 and \$394,219 for the water and sewer funds, respectively. These expenditures were funded primarily with revenue from real property taxes, State aid, sales tax and user charges.

Objectives

The objectives of our audit were to examine the Board's oversight activities and the established internal controls over the Village's financial operations. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of financial operations to safeguard Village assets?
- Did the Board adequately audit claims and ensure that there was sufficient documentation to support the payment of claims?

Scope and Methodology

We examined internal controls relating to the Board's oversight of Village operations and audit of claims for the period June 1, 2009, to November 4, 2011.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such

**Comments of
Local Officials and
Corrective Action**

standards and the methodology used in performing this audit are included in Appendix B of this report.

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 findings and recommendations and indicated they planned to initiate 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-Treasurer's office.

Board Oversight

The Board is responsible for the oversight of the Village's financial operations and making sure that policies and procedures are in place to safeguard the financial resources. The Board fulfills this responsibility in part by instituting appropriate internal controls over Village operations to ensure that financial transactions are properly authorized, recorded, and reported and by annually auditing the records and reports of those officers and employees that receive or disburse Village funds.

The Board is not properly overseeing the Village's financial operations. The Board has not established, or reviewed and updated, policies as required by law and sound business practices. In addition, the Board did not adopt structurally balanced budgets or require the Clerk-Treasurer to provide timely monthly financial reports to properly monitor the Village's fiscal condition. The Board procured an annual audit of the Clerk-Treasurer's records and reports. However, they failed to ensure the timely receipt of the report and did not implement adequate corrective action to address the external auditor's repeated recommendations. Finally, the Board did not segregate the Clerk-Treasurer's duties or institute compensating controls, where necessary. As a result, there is an increased risk that fraud or misappropriation could occur and not be detected or corrected.

Policies and Procedures

Written policies and procedures are a key component of adequate Board oversight because they formally establish and communicate to staff the manner in which to conduct the day-to-day operations of the organization and, if properly communicated, can help establish a substantial framework of internal controls. General Municipal Law (GML)³ requires the Board to adopt a code of ethics and written policies relating to investments and to procurements not subject to competitive bidding. The Board must also periodically review these policies and update them as needed to ensure that they continue to meet the Village's needs and objectives and the requirements of GML. In addition to policies required by law, it is important for the Board to develop written policies and procedures to guide staff in other finance-related areas,⁴ particularly where there is high inherent risk of fraud, waste, or abuse, and also to provide detailed guidance to new staff in cases of turnover or prolonged absences.

³ GML Section 806, GML Section 39, GML Section 104-b

⁴ Including policies for cash receipts and disbursements, payroll, budgeting, use of Village assets such as credit cards, computers and cell phones

Although the Village has an adopted code of ethics, an investment policy and a procurement policy, the Board did not review these policies annually as required or make the necessary amendments to them. The Board minutes did not include evidence of an annual Board review of the code of ethics or the investment policy, which were last updated in 1991 and 1993, respectively. The minutes indicated only that the Board will be provided with a copy of its procurement policy, which had last been amended in December 1991.⁵

We reviewed both the Village's procurement policy and its purchasing procedures, which were included in the Village's personnel policy, with the last recorded revisions made in December 2000. We found that the procurement policy and the purchasing procedures had not been timely updated to incorporate recent GML changes to bidding thresholds.⁶ Furthermore, because the procurement policy had not been updated since 1991, it was not in agreement with the procedures in the personnel policy and contained different dollar threshold amounts for purchases made using a purchase order, Board approval, and competitive quotations. Additionally, when we asked Village staff about the threshold amounts, individuals responded with various requirements for purchasing approval. For example, the procurement policy required purchase order use and Board-liaison approval for any purchase over \$300, while the purchasing procedures set this level at \$500. One employee we spoke to thought this threshold was \$1,000 and another employee believed it to be \$1,500.

In addition, the Board had not developed relevant policies and procedures related to Village operations to provide guidance and compensating controls. Policies to clarify expectations regarding wire transfers and on-line banking, credit card use, acceptable computer or cell phone use and reimbursement of travel and conference expenses had not been developed that would significantly strengthen internal control and accountability. Other policies, consistent with the governing Board's powers and duties, should also be developed setting forth the objectives and incorporating key control procedures for all major operating cycles.⁷

The failure to periodically review and revise Board policies, and to develop detailed policies and procedures for the key aspects of Village operations, results in a lack communication of organizational requirements and expectations, weakened internal controls, and an

⁵ As of the start of our fieldwork

⁶ Based on our discussions, the Board updated its purchasing procedures in August 2011, during our audit fieldwork, to reflect recent changes to GML which increased bidding thresholds to \$20,000 for purchase contracts and \$35,000 for public work contracts.

⁷ Including budgeting, cash receipts and disbursements, reserve fund management, retirement reporting, billing procedures, and claims processing

increased risk that errors and irregularities could occur and not be detected.

Fiscal Management

The Board is responsible for making sound financial decisions that are in the best interest of the Village, and the taxpayers and rate payers that fund its operations. It is important that the Board adopt policies and procedures that provide detailed guidance on preparing and periodically monitoring the annual budget, including the level of unexpended surplus funds⁸ to be maintained. Such policies and procedures will help ensure that the Board adopts budgets that include realistic estimates of revenues and expenditures, and that it uses surplus fund balance as a funding source, when appropriate, and raises only the necessary amounts of real property taxes and user fees. Additionally, Village Law requires the Board to annually audit, or cause to have audited by a public accountant, the records and reports of the Clerk-Treasurer.

Budgeting — The Board must adopt structurally balanced budgets for all operating funds that provide sufficient revenues to finance recurring expenditures. The Village may retain a reasonable portion of fund balance, referred to as unexpended surplus funds, to use as a financial cushion in the event of unforeseen financial circumstances.⁹ In addition, the Village can legally set aside and reserve portions of fund balance to finance future costs for a variety of specified purposes.

The Board did not adequately manage the Village's financial operations. The Board did not develop reasonable annual budgets or long-term financial plans. The Board has reserved a portion of fund balance, for future capital costs, in each operating fund. However, all three funds have accumulated excess unexpended surplus funds. In fact, the sewer fund balance was still moderately high as of May 31, 2010 after realizing a sizable, one-time operating deficit of almost \$300,000 caused by unforeseen costs which Village officials are attempting to recover.¹⁰

⁸ The Governmental Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

⁹ The Government Finance Officers Association (GFOA) recommends that a minimum of two months (approximately 17 percent) of regular revenues or expenditures be retained.

¹⁰ If the Village recovers these costs, in its ongoing lawsuit, the sewer fund balance would again increase to a more excessive level.

Table 1 illustrates the unexpended surplus funds in relation to the ensuing year's budget for the most recent three-year period, including preliminary figures for the fiscal year ended May 31, 2011. The Board has appropriated fund balance in each of the general, water and sewer funds for each of those fiscal years. However, due to operating surpluses, which resulted from inaccurate budget estimates, the appropriated amounts were not used as anticipated, and fund balances have further increased to well in excess of what would be needed to cover unforeseen events.

Table 1: Unexpended Surplus Funds as Percentage of the Ensuing Year's Budget

General Fund		Water Fund		Sewer Fund		
Fiscal Year-End	Unexpended Surplus Funds	% of Ensuing Year's Total Budget	Unexpended Surplus Funds	% of Ensuing Year's Total Budget	Unexpended Surplus Funds	% of Ensuing Year's Total Budget
5/31/2009	\$298,881	39%	\$457,983	86%	\$244,779	65%
5/31/2010	\$250,351	31%	\$528,107	99%	\$206,117	52%
5/31/2011	\$389,674	50%	\$529,015	92%	\$177,677	53%

Independent Audit— An annual audit can, and should, be a useful tool to provide assurance that public moneys are handled and accounted for properly, help identify conditions that need improvement, provide an opportunity for Board members and other authorized personnel to learn more about financial operations, and to provide an opportunity for the Clerk-Treasurer to express concerns about financial operations to the Board or other authorized personnel. The Board has elected to use an external auditing firm to perform an annual audit.

We reviewed the Village's internal financial reports and the audit report and management letter prepared by the Village's external auditor for the most recent two years completed.¹¹ We found that the Board did not inquire as to the status of the final external audit report for the fiscal year ended May 31, 2010. This allowed the Clerk-Treasurer to deliberately withhold the report and management letter from the Board until we requested it at our audit entrance conference on May 26, 2011, five days before the end of the Village's fiscal year. This may occur again for the 2010-11 fiscal year, as the Clerk-Treasurer told us on February 29, 2012 that she had the draft report but the audit was not yet finalized, again almost a year after the fiscal year ended. The Board lacks vital information to adequately manage the Village's finances when it does not receive annual financial and audit reports in a timely manner.

Furthermore, we found the Board did not take adequate corrective action to address weaknesses identified in the external auditor's management letters which included repeated findings regarding

¹¹ Fiscal years ended May 31, 2009 and 2010 with management letters dated November 19, 2009 and January 21, 2011, respectively

significant deficiencies in accounting controls, computer controls, fixed assets, bidding, payroll and general accountability.

Financial Reports — The Board needs complete, accurate, and current financial information to effectively monitor the Village’s financial operations and develop realistic budgets. The Board did not require the Clerk-Treasurer to provide them with monthly financial reports for use in monitoring the budget against actual operations throughout the year. The Clerk-Treasurer told us that she decided to stop providing monthly Treasurer Reports and budget status reports to the Board around December 2010,¹² and the Board never questioned this action or instructed her to provide the reports.

Furthermore, the Board and Clerk-Treasurer do not ensure that the internal financial records and the annual financial report to the State Comptroller’s Office agree with the audited financial statements prepared by the external auditors. We found the year-end accrual entries prepared by the external auditors were not included in the internal financial records and adjusted reports were not filed with our office.

The Board has overall responsibility for the Village’s fiscal management. The Board must take an active role in overseeing Village operations, and ensure it receives the timely and accurate financial information it needs to do so. An annual audit is a fundamental step in this oversight process. The Board’s active involvement in initiating corrective action to address audit recommendations is vital, because it sends a positive message to the public and to employees about the “tone at the top” regarding the Board’s commitment to safeguarding assets and making government operations more effective. The Board is also unable to adequately manage Village operations if it is lacking timely and accurate monthly financial reports to monitor the budget against actual operations, as the year progresses.

Segregation of Duties

The Board is responsible for ensuring that there is an appropriate system of checks and balances over Village operations so no one individual can control all aspects of individual financial transactions. In order to help safeguard cash, the same individual should not receive and deposit cash, prepare and disburse checks, record transactions in the accounting records, and perform monthly bank reconciliations. If it is not practical to adequately segregate the financial duties, the Board must then exercise sufficient oversight to help ensure that transactions are properly recorded and reported, and that moneys are accounted for properly.

¹² Or earlier, per discussions with Board members

The Board did not adequately segregate the Clerk-Treasurer's financial duties or establish compensating controls. Consequently, the Clerk-Treasurer is solely responsible for all aspects of the Village's financial and recordkeeping duties, including receiving and depositing money, writing checks, making bank transfers, billing water and sewer fees, recording fee and property tax payments, maintaining accounting records, receiving and opening bank statements and reconciling bank accounts. Although the Village has a part-time clerk, who works in the Clerk-Treasurer's absence, the Board has not used this person to assist in segregating duties. For example, the part-time clerk could prepare bank reconciliations or prepare quarterly water and sewer bills.

The Board also did not provide increased oversight or implement compensating controls to address the increased risk caused by the lack of segregation of duties. When we started audit field work in May 2011, the Board did not require interim Treasurer Reports, did not review reconciled bank statements, bank transfers or journal entries, and had not received or reviewed the audited financial statements for the fiscal year ended May 31, 2010. During our fieldwork, a Trustee began to review the bank reconciliations and compare the cash balances to the internal financial reports, and the Board began receiving monthly Treasurer Reports from the Clerk-Treasurer.

The deficient segregation of duties and lack of compensating controls increases the risk that Village funds could be misappropriated and records could be adjusted to conceal inappropriate transactions. Due to this inherent risk, we performed several tests of transactions.¹³ We selected and tested a non-biased sample of cash receipts, utility billings and adjustments, cash disbursements, payroll transactions, and journal entries, and also reviewed bank reconciliations and financial statements for accuracy, timeliness and reasonableness. We found the following significant control weaknesses:

- The Clerk-Treasurer did not utilize all fields available in the computerized financial system to record receipts as paid in cash or by check, further limiting the ability to implement compensating controls to detect potential substitution of funds.
- The Clerk-Treasurer made numerous adjusting journal entries in the general journal without consistent prior approval or secondary review, including entries to void and reissue checks and adjust water and sewer account balances.

¹³ Details of the tests performed are included in the Methodology section in Appendix B.

- The Clerk-Treasurer made online transfers between bank accounts, without Board approval or independent review.

Although our tests did not reveal specific significant discrepancies, it is essential that the Board either segregate the Clerk-Treasurer's conflicting duties, or provide for increased Board oversight and review of the Clerk-Treasurer's functions, to reduce the risk of inappropriate or unauthorized use of Village funds.

Recommendations

1. The Board should periodically review, and revise as necessary, the Village's code of ethics and investment policy to ensure they continue to adequately address the Village's needs, the Board's intentions, and applicable legal requirements.
2. The Board should revise its procurement policy and purchasing procedures to ensure they are up-to-date, in agreement with each other (or combine them into one document), in compliance with laws, and provide adequate guidance to staff on the required purchasing methods for the procurement of goods and services when competitive bidding is not required. The Board should make the policy available to all staff involved in the procurement process, and should review it annually, and revise it as necessary, in compliance with statute.
3. The Board should review all financial operations and, where appropriate, adopt policies to guide these operations. For example, the Board should adopt policies and procedures regarding payroll, cash receipts and disbursements, travel and conference expenses, and use of Village assets such as credit cards, computers and cell phones. All policies should be disseminated to applicable Village officials and employees, and reviewed and updated as necessary on an annual basis.
4. The Board should establish a policy and develop procedures related to the budgeting process. The policy should provide guidance in developing accurate and realistic budget estimates and monitoring them throughout the year, as well as determining the appropriate level of fund balance to maintain in each fund, accurately estimating the amount that will be available at the end of the fiscal year, and determining the proper amount to appropriate in the ensuing year's budget.
5. The Board should develop a plan to responsibly reduce the unexpended surplus balances in the general, water and sewer funds. If the Board believes it is necessary to accumulate money for future planned purposes, it should consider formally establishing authorized reserves. The plan may also be to use

the excess fund balance to pay one-time expenses, such as capital projects, or to prudently reduce future tax levies or usage rates.

6. The Board should take a more active role in managing the Village's financial operations, and should follow up on the timely issuance of its external audit reports, thoroughly review the annual audit report and management letter and develop and implement a corrective action plan to timely address significant deficiencies.
7. The Board should evaluate the Clerk-Treasurer's duties and, where practicable, assign duties and responsibilities to provide for proper internal controls. Where it is not practicable to segregate duties, the Board should establish adequate compensating controls, including periodic reviews of bank reconciliations, online bank activity and the accounting records.
8. Village officials should identify any unused capabilities that are available within the Village's accounting software and use these available tools to improve the accounting records and the ability to provide independent review and oversight over financial transactions.

Claims Audit

Village Law requires the Board to audit all claims against the Village prior to approving the Clerk-Treasurer to pay them. It is essential for Board members to conduct a thorough review of each claim to verify that it represents a proper and valid charge, the purchase was properly authorized, and that each claim is itemized and supported with a detailed receipt for the goods or services purchased, and evidence confirming the goods or services were received. It is essential that Board members adequately document their thorough claims audit, and the Board's formal approval of claims for payment be recorded in the Board minutes. The Board may,¹⁴ by resolution, authorize payment in advance of audit of claims for public utility services, postage, freight, and express charges; such prepaid claims must be presented at the next regular Board meeting for audit.

The Board did not audit all claims and ensure that all payments were supported by adequate documentation and were in compliance with the Village's procurement policy. The Village paid claims totaling approximately \$2.9 million during our audit period. Village officials told us the Board generally did not audit individual claims prior to payment, but instead only reviewed and approved the abstracts¹⁵ presented by the Clerk-Treasurer at monthly meetings. The Clerk-Treasurer stated that she provides the claims that do not have department-level approval, or are for an unusual purchase, to the applicable Board liaison¹⁶ for review and approval, prior to submitting them to the Board for payment approval. Because claims were not routinely approved by the Board, payments could have been made for goods and services that were not needed or cost more than necessary.

We reviewed 94 claims totaling \$629,940.¹⁷ We found the following:

- Only 23 of the 94 claims, totaling \$156,249, included the signature of a Board member. However, this signature served as evidence of department approval, and not of a proper audit by the Board.

¹⁴ Pursuant to Village Law, Section 5-524 (6)

¹⁵ A list of claims, which includes the amounts claimed, the account codes, and the fund to be charged

¹⁶ At the annual organizational meeting, the Board appoints Trustees as Commissioners and Deputy Commissioners for each functional level of Village operations to provide Board oversight. Examples of these positions include Commissioners and Deputy Commissioners of Fire, Water, Sewer, Finance, Streets and Sidewalks, Personnel, Police, and Municipal Buildings.

¹⁷ See detail of sample selection in Appendix B Methodology

- Five of the 94 claims tested, totaling \$955, were for purchases made using store procurement cards.¹⁸ The lack of Board audit and review of these claims heightens the inherent risk that inappropriate purchases could be made using procurement cards. While the purchases appeared to be for legitimate Village purposes, without effective claims audit, credit card purchases could result in claims being paid that were neither authorized nor proper Village expenditures.
- Twenty-eight claims, totaling \$2,881, were paid prior to claim or abstract approval by the Board, without prior authorization to do so. These disbursements were generally for meetings, conferences and training and appeared to be for proper Village charges. The Village lacks statutory authority to pay claims prior to Board audit and approval, except for claims for public utility services, postage, freight, and express charges.

The Board's failure to audit claims increases the risk that unauthorized disbursements of Village funds may be made and not detected. The audit of claims is often the last line of defense for preventing unauthorized, improper, or fraudulent payments. When a local government has a strong claims auditing process, the control consciousness of its staff is enhanced because officers and employees are aware that a careful review of claims will occur before public funds are disbursed.

During our review of Board minutes, we found that authorization to purchase specific items was approved during Board meetings rather than through the use of completed purchase orders, as required by Board policy. During our review of claims,¹⁹ we found that of the 14 purchases requiring prior approval using a purchase order, only three claims contained a purchase order and only one of those purchase orders was completed adequately to include detail of what was being purchased and included a Board member signature. The failure to consistently use purchase orders prior to ordering goods and services limits the Board's ability to exercise timely and effective budgetary control and prevent unauthorized purchases. Even with prior Board approval of a purchase, the claim needs to be audited before payment to verify the purchase was made as authorized.

To test for compliance with statutory and policy requirements for competitive purchasing, we judgmentally selected 22 purchases totaling \$254,045 that were the type and dollar amount that may be subject to bidding or procurement policy requirements, and tested

¹⁸ Procurement card purchases from seven vendors totaled approximately \$20,000 during our test period.

¹⁹ We reviewed the same claims that were tested for claims processing.

them for applicability and compliance. We found that only five of the 22 purchases, totaling \$92,690, contained a purchase order and only six claims were signed by a Board member to indicate departmental approval. In addition, Village officials need to improve their documentation of compliance with bid and quote requirements.

- Thirteen of the 22 claims tested, totaling \$107,692, were for goods or services in dollar amounts that required documented evidence of verbal or written quotes, in compliance with the Village's purchasing policy. Ten of the claims, totaling \$90,943, had no clear documentation of quotes obtained or how the vendor was selected, as required by policy. We asked department heads to search for documentation and they eventually found documentation that quotes were obtained for five more claims (\$43,268). We found no evidence that quotes were obtained or other documentation of the method of vendor selection or an approved policy exception for five of the purchases totaling \$47,675. Ample documentation of the method and reason for vendor selection on the claim for payment would comply with Board policy and provide ready evidence of compliance with price quote requirements for claims audit and approval.
- Five of the 22 claims, totaling \$144,653, were subject to bidding requirements. We reviewed claim documentation and Board minutes and identified that all purchases were made in compliance with statutory requirements. Two purchases were documented as purchased on State contract, and three were properly bid by the Village. However, for one \$40,000 purchase, we found no quotes or purchase order attached to the claim. We found evidence of bid advertisement in the Board minutes, and after some time, the Clerk-Treasurer was able to locate bid documents, which indicated the contract was awarded to the lowest bidder. Clear documentation of bid compliance on claims for payment would better facilitate the Board's audit of claims and monitoring for policy compliance. We also selected three additional bid awards (totaling \$217,485) from our review of Board minutes, and reviewed related bids and supporting claim documentation to verify the bids were awarded properly, and the purchases were made as awarded, with no exception.

Our audit results are similar to findings included in the Village's last two external audit reports, relating to lack of consistent use of purchase orders, and maintenance of documentation of quotes and bids obtained, which demonstrates a lack of Board initiative to implement corrective action to address audit recommendations.

Because the Board did not provide and enforce adequate purchasing policy guidance to employees involved in the procurement of goods and services that are not subject to statutory bidding requirements, the Village may have incurred higher costs than necessary for goods and services.

Recommendations

9. The Board should conduct a thorough and deliberate audit of the claims for payment against the Village, before they are paid, ensuring that each claim has sufficient supporting documentation, and represents a valid Village expenditure.
10. The Board should ensure that purchase orders are used as required by Village policy.
11. The Board should monitor for compliance with the Village's purchasing policy and procedures, and ensure that the required quotes or proposals are obtained and clearly documented on the claims, and that detailed supporting documentation is retained.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

**VILLAGE OF SODUS
14-16 MILL STREET
SODUS, NY 14551
(315) 483-9821 PHONE
(315) 483-6154 FAX
TDD (800) 662-1200**

June 26, 2012

Office of the State Comptroller
Division of Local Government & School Accountability
PSU-CAP Submission
110 State Street 12th Floor
Albany, NY 12236

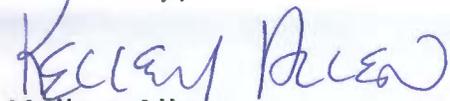
RE: Village of Sodus Audit Response

To Whom it May Concern:

The Village of Sodus Board of Trustees have read the draft report of examination and concur with its findings.

We take these findings very seriously and will review the recommendations and develop a Corrective Action Plan that will be filed within the next 90 days to address each one of the recommendations made by the Office of the State Comptroller.

Sincerely,



Kelley Allen
Mayor
Village of Sodus

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the Board provided adequate oversight of fiscal operations. To accomplish this, we performed an initial assessment of the internal operations 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, information technology, and the internal operations of the individual Village departments.

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 objective and scope by selecting for audit those areas most at risk. We selected Board oversight for further audit testing, particularly over the Clerk-Treasurer's duties, and claims auditing.

- We reviewed bank statements and reconciliations for two non-consecutive months and compared the reconciled balances to the internal financial statements and traced the outstanding items per reconciliation to the cleared transaction in later months. We judgmentally selected the most recently completed month, April 2011, to verify bank reconciliations were prepared timely and up-to-date, and randomly selected a second month, October 2010, from the remaining 22 months in our audit period, as of the date of the test.
- We reviewed the general journal entries recorded during our audit period for reasonableness and evidence of independent review, and reviewed bank statements surrounding the voided check transactions to verify they had not cleared the bank. We also reviewed the activity within the non-operating bank accounts, during the audit period, for reasonableness.
- We judgmentally selected two months, June 2010 and April 2011, for cash receipts testing. We selected two months with the highest volume of receipts including property tax and quarterly utility billing receipts, so we could ensure all types of revenues were receipted, recorded and deposited timely and accurately. We compared the cash receipts per the bank statement to the composition of deposits per the bank receipts, deposit slip detail, cash receipts journal, computerized customer account program, monthly revenue statement and for utility billing, the Village's copy of billing notices or duplicate receipts.

- We prepared an accountability analysis of the real property taxes for the 2010-11 fiscal year to determine if interest and penalties were correctly computed and accounted for. We calculated late payments for accuracy and traced them to the related journal entry for the months included in our cash receipts testing. Due to the small number of late payment transactions occurring in the selected test months, we expanded our testing to the month of August 2010.
- We selected, on a non-biased basis, two non-consecutive months (July 2010 and April 2011) to compare the total utility billing per the customer billing system to the entries in the general ledger system, to ensure accuracy.
- We traced five Board-approved utility account adjustments to the applicable customer account, and traced five adjustments from customer accounts to the Board approval per meeting minutes, to determine if approvals were made prior to accounts being adjusted. We selected these transactions using a non-biased method starting with the most current month within the 27-month audit period (June 2009 to August 2011) and tracing the first approved adjustment per meeting minutes in every fourth month until five adjustments were found to the actual adjustment. We then selected the first adjustment in the utility program as of June 2009 and every fourth month until again until five were traced to the approval as found in the Board minutes.
- For cash disbursements testing, we selected the months of October 2010 and April 2011, using the same months and selection basis as used for our cash receipts testing. We traced the 291 disbursements made in these two months, totaling \$231,457, from the voucher to the check register and to the bank statement.
- We performed the following claims testing to assess areas identified in our electronic data analysis:
 - o We reviewed 36 disbursements made to or referencing a Board member, totaling \$43,215, to determine if the payment was for a valid Village purpose.
 - o We reviewed payments to professional service providers and interviewed Village personnel to determine if the payments were for valid Village purposes and to determine how the professional service provider was selected.
 - o We found 25 instances when only one payment was made on a particular day. We tested every fifth transaction to determine if the payment was a valid Village purpose and adequately documented.
 - o We reviewed 10 potential duplicate payment transactions totaling \$4,660.
 - o Of the 210 procurement card payments to seven vendors totaling \$20,198 during the audit period, we randomly selected five payments totaling \$955 and tested for adequate supporting documentation and valid Village purpose.

- For claims audit testing, within the tests previously identified, we reviewed 94 claims totaling \$629,490 for evidence of Board audit and proper use of purchase orders. We also compared the check dates to the abstract approval dates to identify payments made in advance of Board approval. We reviewed those payments for pre-authorization and subsequent Board review.
- We judgmentally selected (based on type and dollar amount) 22 purchases totaling \$254,045 that were the type and dollar amount that may be subject to bidding or procurement policy requirements, and tested them for compliance. We selected this sample by sorting disbursement data by purchase amount, and then selected four purchases in each purchasing policy threshold (under \$500, \$500 - \$1,999, \$2,000 - \$9,999, \$10,000 - \$19,999) and six purchases over \$20,000. We reviewed these transactions for documentation of compliance with policy and statutory guidelines. We also sorted the disbursement data by vendor and selected five vendors from which multiple purchases were made during one fiscal year which aggregated in excess of the \$20,000 (at that time) bidding thresholds and determined if the purchases complied with GML requirements.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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