



Village of Walton Financial Operations

Report of Examination

Period Covered:

June 1, 2010 — February 22, 2012

2012M-156



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of Local Officials and Corrective Action	6
FINANCIAL OPERATIONS	7
Cash Receipts and Disbursements	7
Payroll	10
Purchasing	11
Annual Financial Report and Annual Audit	12
Recommendations	13
APPENDIX A Response From Local Officials	15
APPENDIX B Audit Methodology and Standards	17
APPENDIX C How to Obtain Additional Copies of the Report	20
APPENDIX D Local Regional Office Listing	21

State of New York Office of the State Comptroller

December 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 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 Walton, entitled Financial Operations. 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 Walton (Village) is located in the Town of Walton, Delaware County, and has 3,088 residents. The Village's annual budget for the 2011-12 fiscal year was \$4.5 million, funded mainly from real property taxes, State and Federal aid, and water and sewer fees. As of February 22, 2012 there were 39 full-time and part-time employees. During our audit period Village officials made 2,229 non-payroll disbursements totaling \$7.28 million, received \$6.3 million in revenues, and paid approximately \$1.6 million in gross salaries.

The Village is governed by a Board of Trustees (Board), comprising five elected members including the Mayor. The Board is responsible for the general management and control of the Village's finances and operations. The Mayor serves as the Village's chief executive officer and budget officer. The Clerk-Treasurer serves as the Village's chief fiscal officer.¹

Scope and Objective

The objective of our audit was to review the Village's financial operations for the period June 1, 2010 through February 22, 2012. We expanded our scope through February 29, 2012 to compare checks that cleared the bank that month to the accounting records; through May 31, 2012 to review bank statement balances for all Village bank accounts; and through June 30, 2012 to review bank deposits-in-transit from May 2012. Our audit addressed the following related question:

- Did the Mayor and the Board ensure that the Village's financial operations were functioning properly?

Audit Results

The Mayor and the Board did not ensure that the Village's financial operations were functioning properly. There were inadequate controls over the records and reports, disbursements, cash receipts, payroll, and purchasing processes. Overall, the Village's financial system is all but non-existent. No one knows the actual financial position of the Village, because the Clerk-Treasurer's office performs all of the financial duties without any Board oversight. Additionally, the Board did not audit any claims prior to their payment and has yet to audit, or cause to be audited, any of the financial activity for the fiscal years ended 2011 or 2012.

¹ Two individuals served as the Clerk-Treasurer during our audit period. The current Clerk-Treasurer was appointed in April 2011.

The Clerk-Treasurer failed to make timely payments to State and Federal agencies and prepare and file the annual financial report with the Office of the State Comptroller (OSC) for the fiscal year ended 2011. The Clerk-Treasurer also did not pay the State's Justice Court Fund (JCF) more than \$29,000 for fines collected by the Village Justice for five months, even though the Justice remitted the money to her in a timely manner, and did not pay the more than \$8,600 owed to the U.S. Internal Revenue Service, the State Department of Taxation and Finance, and the New York State Employees' Retirement System for employee withholdings.

No one verified that any of the more than \$4 million in checks that the Clerk-Treasurer disbursed during the 2011-12 fiscal year were for proper Village purposes or that the nearly \$2 million dollars disbursed and more than \$460,900 received and deposited was recorded in the accounting system. Additionally, no one had compared the cash balances per the accounting records to the adjusted bank balance since March 2011² or certified the payrolls' accuracy. Seven carpenters, hired on a temporary basis, were paid an aggregate of more than \$83,000 without any supporting documentation indicating that the Board approved their wage rates.³ Further, there was no requirement for purchases to be approved prior to being ordered, and no one maintained any records to track where equipment purchases are used or stored. The failure of Village officials to provide effective oversight of the financial records, ensure proper authorizations, and track equipment assets leaves the Village vulnerable to errors and fiscal mismanagement. We also found that the Board did not require the use of competition for Village fuel purchases, and therefore cannot have assurance that the Village is paying the lowest available price.

Lastly, the operating budget for the 2012-13 fiscal year was adopted after the beginning of the fiscal year, more than a month after it was due, precluding a meaningful discussion of its content or a public hearing to address any taxpayer concerns. Even without the nearly \$2 million of expenditures recorded, 37 appropriations were still over-expended by an aggregate of nearly \$194,000 as of January 2012, with a third of the fiscal year still remaining.⁴ The Board's adopted budgets over the last seven years increased the real property tax levy by an average of nearly 5 percent annually. In the absence of reliable records and controls over spending, there is no assurance that such increases are necessary or in the taxpayers' best interest.

Comments of Local 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 agreed with our recommendations and indicated they planned to initiate corrective action.

² The payroll account was reconciled through February 28, 2011.

³ Three of these employees were paid \$45 an hour, three were paid \$25 an hour, and one was paid \$20 an hour.

⁴ Total general fund expenditures were still within the adopted budget.

Introduction

Background

The Village of Walton (Village) is located in the Town of Walton in Delaware County. The Village has 3,088 residents and provides various services, including water distribution, sewage treatment, road maintenance and snow removal, public safety, and general government support. The Village's annual budget for the 2011-12 fiscal year was \$4.5 million, funded mainly from real property taxes, State and Federal aid, and water and sewer fees. As of February 22, 2012 there were 39 full-time and part-time employees. During our audit period Village officials made 2,229 non-payroll disbursements totaling \$7.28 million, received \$6.3 million in revenues, and paid approximately \$1.6 million in gross salaries.

The Board of Trustees (Board) comprises five elected members including the Mayor. The Board governs the Village and is responsible for the general management and control of the Village's finances and operations. The Mayor serves as the Village's chief executive officer and budget officer. The Clerk-Treasurer, who was appointed by the Board in April 2011, serves as the Village's chief fiscal officer. She is responsible for the custody of all Village money, maintaining accounting records, signing checks, processing payroll, preparing financial reports, keeping a record of Board proceedings, and filing an annual financial report with the Office of the State Comptroller (OSC). The Board also appointed a Deputy Clerk-Treasurer (Deputy) in June 2011 who helps the Clerk-Treasurer fulfill these duties.

Objective

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

- Did the Mayor and Board ensure that the Village's financial operations were functioning properly?

Scope and Methodology

We examined various financial records of the Village for the period June 1, 2010 through February 22, 2012. We expanded our scope through February 29, 2012 to compare checks that cleared the bank that month to the accounting records; through May 31, 2012 to review bank statement balances for all Village bank accounts; and through June 30, 2012 to review bank deposits-in-transit from May 2012. Our audit disclosed areas in need of improvement concerning information technology controls. Because of the sensitivity of this information, certain vulnerabilities are not discussed in this report but have been communicated to Village officials confidentially so they could take corrective action.

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 agreed with our 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.

Financial Operations

The Mayor and Board are primarily responsible for all of the Village's financial operations. While the Mayor is the budget officer, the Clerk-Treasurer is assigned most of the day-to-day financial activities, including maintaining accurate and complete accounting records that are the basis of reports that summarize the Village's financial activity for the Board. The Clerk-Treasurer is also responsible for paying claims submitted by vendors after the Board audits and approves each claim and reviews the abstract (list of claims to be paid).

The Mayor and Board did not fulfill their obligation to provide oversight of financial operations. They did not ensure that the Clerk-Treasurer maintained accurate accounting records and therefore did not have the reports needed to determine the financial position of the Village, the amount of cash available to fund operations, and the amount owed to and by the Village. Due to the lack of Board oversight, there is no assurance that all money received by the Village is deposited and properly recorded, that disbursements are made for only proper Village purposes, and that purchases are necessary.

The Board also did not provide the Clerk-Treasurer with sufficient guidance for compiling budget estimates for fiscal year 2012-13, thereby delaying the adoption of the budget until after the start of the fiscal year and precluding a public hearing. Further, the Board did not ensure that the Clerk-Treasurer filed the Village's annual financial report for the 2010-11 fiscal year with OSC, and it has yet to provide for an audit of financial activity for 2010-11 and 2011-12. These conditions place the Village's financial operations at high risk of abuse or error and, unless corrected, could potentially jeopardize the Village's ability to provide services to its residents.

Cash Receipts and Disbursements

Village officials are responsible the safeguarding of and accounting for public resources. Management supervision of those charged with handling public moneys helps to ensure that cash receipts and disbursements are recorded and reported in a timely and accurate manner. The Mayor should ensure that all financial transactions are properly authorized. For example, requiring the Mayor as well as the Clerk-Treasurer to sign all checks represents a review and approval of cash disbursements, indicating they are for appropriate purposes. The Board is also required to audit each claim prior to payment; a thorough claims audit must verify that purchases are properly approved, that the goods and services have been received, and that each claim includes supporting documentation to show that the purchase was for proper Village purposes.

The Deputy Clerk-Treasurer collects and deposits the majority of the receipts. She records the majority of the water and sewer receipts while the Clerk-Treasurer records the majority of the general fund receipts. As of May 17, 2012, the accounting records showed that there were 2,360 receipts totaling \$5,852,221, but this data was not complete: there were 427 general fund receipts totaling \$460,944 during our audit period that were deposited but not recorded in the accounting records. Additionally, no one had reconciled the cash balances per the accounting records to the adjusted bank balances since March 2011.⁵ For example, as of May 31, 2012, the Village's general fund bank accounts showed \$47,017 in cash, including deposits-in-transit. However, the actual available cash balance is likely much lower because of unrecorded disbursements that have not yet cleared the bank. The Village's bank in fact charged \$492 in penalties for 189 instances of insufficient funds. Without accurate cash balances, Village officials cannot know if any money is missing or even available to fund Village operations.

We also found that no one verified that any of the 971 checks, totaling more than \$4 million that the Clerk-Treasurer disbursed during the 2011-12 fiscal year, were for proper Village purposes. Further, of the \$4 million disbursed, nearly \$2 million (264 checks) was never recorded in the accounting system during the 2011-12 fiscal year. The Clerk-Treasurer prepared all manual checks, printed all the computerized checks, and signed each one without a co-signer. Further, while the Board did review a list of claims to be paid, it did not audit any individual claims prior to payment. The lack of independent oversight, combined with the failure to audit claims, increases the risk of error and the opportunity for misuse of funds.

We examined 45 disbursements⁶ and found the following:

- Two separate checks paid to two different vendors cleared the bank but were recorded as one check in the accounting system. One of these checks was paid to a construction contractor totaling approximately \$36,500 and the other, totaling about \$2,200, was paid to a fuel vendor. Our review of the related invoices indicated that these payments appeared to be legitimate Village expenditures.
- One disbursement totaling over \$57,000 was paid to a chemical company but lacked any supporting documentation. The Clerk-Treasurer told us this was for chemicals used at the sewage treatment plant. We checked another bill to the same company and verified it was for chemicals for the sewer plant.

⁵ The payroll account was reconciled only through February 28, 2011.

⁶ See Appendix B for details on sample selection.

- The description for one check totaling \$140 showed that it was to refund a real property tax overpayment made to the Village. However, the real property tax records showed this amount as a late-payment penalty and did not show an overpayment. Our review of Board meeting minutes did not find any action to forgive or refund any real property tax penalties.

We also reviewed all 45 checks recorded as voided in the financial software during our audit period and found that one check erroneously recorded as void cleared the bank for more than \$2,500. The Clerk-Treasurer said this check was paid to a vendor for fuel to be used by the Village Police and Public Works departments. We verified that the vendor received the check and credited this amount in its subsequent bill. This caused an overpayment to the Village's account, which was used to offset future charges.

The failure to accurately record cash receipts and disbursements, combined with an inadequate audit of claims and a lack of compensating controls, increases the risk of error and misappropriation of funds. Further, because the accounting records are not accurate, any financial reports generated from the accounting software are unreliable and the Board cannot make informed financial decisions. Even with \$450,000 in expenditures unrecorded, 37 budget appropriations were over-expended by an aggregate of nearly \$194,000 as of January 2012, with a third of the fiscal year still remaining.⁷

In September 2012, after our audit fieldwork, the Clerk-Treasurer and Deputy Clerk-Treasurer attended training offered by OSC for local government fiscal management and administration.

Justice Court Funds (JCF) — Every village court is required by law to report the financial activities of each month to the JCF by the 10th of the following month. Once the report is filed, the court sends a check for the total reported amount to the chief fiscal officer (CFO) of the municipality. JCF then audits the report, determines the State, county, and local shares of the fines and fees collected, sends an invoice and billing statement to the CFO for the amount due the State, county, and village and sends a copy of the distribution summary to each Justice.

The Clerk-Treasurer failed to pay the JCF more than \$29,000 for fines collected by the Village Justice for five months, even though the Village Justice remitted the money to the Clerk-Treasurer in a timely manner and the JCF invoiced the Village monthly. The Clerk-Treasurer paid the JCF in September 2011 after receiving two letters from the JCF regarding the delinquency. The failure to remit Village

⁷ Total general fund expenditures (recorded and unrecorded) were still within the adopted budget total.

Justice Court moneys to the JCF in a timely manner impedes the processing of payments and distribution of moneys.

Late Budget Adoption — We also found that the Board did not adopt the Village's 2012-13 operating budget until after the beginning of the fiscal year,⁸ delaying the issuance of the Village's real property tax bills. Although the Clerk-Treasurer collected departmental budget estimates from Village department heads as required, she did not compile the estimates in a timely manner due to a lack of familiarity with the financial software. A Board member told us that, because of the delay in the budget's adoption, the Board could not have a meaningful discussion of its content and was unable to hold a public hearing to address any taxpayer concerns. The Board's failure to adopt the budget on time is due to a pervasive lack of oversight of the Village's financial operations.

Payroll

Proper payroll processing requires certification, or approval, of the completed payroll before the paychecks are issued, in which a Village official examines the payroll and certifies that the persons included have worked the hours claimed and are paid Board-authorized rates. Village Law also requires that payrolls be certified by the department head or other direct supervisor of the respective employees. The Clerk-Treasurer is responsible for ensuring that payroll taxes are properly withheld and reported and remitted on time to appropriate Federal and State agencies. Finally, the maintenance of accurate leave records is essential to help ensure that employees are awarded leave to which they are entitled pursuant to a collective bargaining agreement, employment contract, or Board-approved policy. The Village establishes its employee leave policy in accordance with employment contracts.

No one certified the payroll's accuracy and verified that the hours Village employees were paid for were the hours they actually worked. Seven carpenters, hired on a temporary basis, were paid an aggregate of more than \$83,000 during the audit period; however, there was no documentation of the Board approving their wage rates. Three of these employees were paid \$45 an hour, three were paid \$25 an hour, and one was paid \$20 an hour. We also reviewed the withholdings for 13 out of 87 employees paid during our audit period.⁹ Although the gross wages paid to these 13 employees were properly supported and paid in accordance with Board-approved rates and contracts, we found that one employee did not have his share of FICA (Federal Insurance Contribution Act) taxes withheld from his pay for Social Security and Medicare, totaling \$970 for six months.¹⁰ Additionally,

⁸ The 2012-13 budget, due on May 1, 2012, was adopted on June 6.

⁹ See Appendix B for sample selection.

the Clerk-Treasurer did not pay the more than \$8,600 owed to the U.S. Internal Revenue Service, New York State Department of Taxation and Finance (Taxation and Finance), and the New York State Employees' Retirement System (operated by the New York State and Local Retirement System) for employee withholdings, including the Village's share of those taxes and fees owed for the December 2011 payroll. In October 2011, the Village paid a penalty of \$1,900 to Taxation and Finance for delinquent payments of payroll-related taxes.

Moreover, the leave records for Village employees were incomplete and inaccurate. Three of the six employees'¹¹ leave accrual records we reviewed for the 2011-12 fiscal year did not show any balances at the beginning of that year even though they were long-term employees who had leave time available. The Clerk-Treasurer began maintaining and updating manual leave records after we began our audit fieldwork. These deficiencies occurred because the Board allowed the Clerk-Treasurer to perform all the key payroll duties with no supervisory oversight.

Purchasing

Village officials are responsible for ensuring the prudent and economical use of public funds when procuring goods and services, and for compliance with Board policy and legal requirements. General Municipal Law (GML) requires that purchase contracts for \$20,000 or more must be publicly bid,¹² and that municipalities must adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements. Good business practices include management review and authorization of purchases, and the use of competition to help ensure that the Village obtains goods and services at the lowest available price. The Village may also purchase through available contracts from vendors authorized by the State's Office of General Services (OGS) which offer competitive pricing.

The Village's procurement policy requires that purchase contracts for over \$20,000 and public works contracts for \$35,000 or more must be publicly bid. The procurement policy also requires that two verbal quotes be obtained for purchase and public works contracts ranging from \$500 to \$5,000 and three written or fax quotes or written proposals be obtained for purchase contracts between \$5,001 and \$19,999. It also requires that two written or fax quotes be obtained

¹⁰ This employee's gross pay totaled \$23,090 for the months that the FICA tax was not withheld.

¹¹ These six employees were among the 13 employees we selected for payroll testing.

¹² Effective June 22, 2010. Prior to that date, the bidding threshold for purchase contracts was \$10,000.

for public works contracts ranging from \$5,001 to \$10,000 and three written or fax quotes or written proposals be obtained for public works contracts ranging from \$10,001 to \$34,999.

There was no requirement for purchases to be approved prior to being ordered, and no one maintained any records to track where equipment purchases are used or stored.

The Village paid nearly \$54,800 for vehicle fuel during our audit period.¹³ Eighteen of the 37 fuel invoices we reviewed had a price higher than the OGS contract price;¹⁴ the other 19 purchases were priced lower. While these purchases essentially offset each other to a net aggregate of \$340 more than the OGS price, without competitive price comparisons Village officials do not know whether they received the best possible price. Further, because the aggregate payments in 2011-12 exceeded \$20,000, the purchase of this commodity should have been put out to bid. As a result, there is no assurance that the Village is paying the best price for goods and services, and taxpayer dollars could be wasted.

The Board's failure to provide proper oversight of the Village's recordkeeping, cash receipts and disbursements, claims processing, and purchasing practices exposes the Village to fiscal mismanagement and raises concerns about its ability to sustain itself. The Board's adopted budgets over the last seven years increased the real property tax levy by an average of nearly 5 percent annually.¹⁵ By increasing taxes with no controls over spending, no oversight of financial operations, and no public transparency, the Board has not fulfilled its responsibility as custodians of taxpayer moneys.

Annual Financial Report and Annual Audit

Local governments are required by law to annually complete and file with OSC a detailed report of all financial activity for the preceding year. If the books and records are accurate and up-to-date, completing this report, called the Annual Update Document (AUD), should simply require summarizing the records on the AUD form. This report provides the Board, OSC, and Village residents with a tool for monitoring financial operations. The Clerk-Treasurer is required to complete and submit the Village's annual financial report no later than 60 days after the close of the fiscal year. It is important that the Board has procedures in place to review this report for accuracy and ensure that the Clerk-Treasurer completes and submits it in a timely manner.

¹³ \$26,960 was paid during the 2011-12 fiscal year.

¹⁴ Adjusted for each date of purchase

¹⁵ The Village's 2011-12 tax levy of \$1,148,954 exceeded the State tax cap by \$21,109. The Village passed a local law as required to authorize the amount of the levy.

Village Law also requires that the Board annually audit, or have a Village officer, employee, or an independent public accountant audit, the records and reports maintained by the Clerk-Treasurer on the Village's behalf. This annual audit serves as an important internal control over cash receipts and disbursements by providing independent verification that transactions have been properly recorded and that cash has been properly accounted for. It also provides Board members with an added measure of assurance that the financial records and reports contain reliable information on which to base their financial decisions.

The Board did not ensure that the Clerk-Treasurer filed the Village's annual financial report for the 2010-11 fiscal year with OSC, which was due August 1, 2011. The 2010-11 and 2011-12 annual financial reports have not yet been filed with OSC as of October 23, 2012. Further, the Board has yet to provide for an audit of financial activity for 2010-11 and 2011-12.¹⁶ An effective audit of the Clerk-Treasurer's records and reports could have identified the serious deficiencies in the accounting records. It is essential that, as the basis of interim financial reports to the Board as well as the required annual report of financial activity, the Village's records are accurate, timely, and reliable.

Recommendations

1. The Mayor should assign financial duties to the Village staff so as to separate incompatible financial activities including the recording, custody, and reconciliation of Village funds.
2. The Board should amend its policy or adopt a resolution to require that both the Clerk-Treasurer and the Mayor sign all disbursement checks.
3. The Board should audit and approve all claims prior to their payment.
4. The Board should require that the Clerk-Treasurer accurately record all the Village's financial transactions in a timely manner and provide periodic budget-to-actual reports for each operating fund to the Board.
5. The Mayor should verify that cash is recorded accurately by ensuring that the accounting records are reconciled with the cash balances per the Village bank statements.
6. The Board should adopt a budget according to the required timelines and monitor actual revenues and expenditures to prevent the over-expenditure of budget appropriations.

¹⁶As of October 1, 2012

7. The Board should continue to seek out appropriate training for Board members and other Village officials and staff in budgeting, financial administration, and recordkeeping.
8. The Clerk-Treasurer should remit Justice Court fines and fees to the OSC Justice Court Fund in a timely manner.
9. The Mayor should ensure that all employees are paid the Board-approved wage rates.
10. The Clerk-Treasurer should ensure that all employee payroll withholdings are complete and accurate and that all related payments to State and Federal agencies are made in a timely manner.
11. The Clerk-Treasurer should ensure that employees' leave records are accurate and up-to-date.
12. The Board should require that all employees follow the Village's procurement policy and that only the lowest possible price is paid for commodities such as fuel.
13. The Clerk-Treasurer should prepare and file an annual financial report with OSC in a timely manner.
14. The Board should provide oversight of the financial operations and audit, or provide for an audit, of the Clerk-Treasurer's financial records and reports on an annual basis.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Village of Walton

Incorporated 1851

MAYOR: PATRICK G. MEREDITH
TRUSTEES: JAMES BELL
ANDREW RUTHERFORD
ALLAN REYNOLDS
TERESA O'LEARY

MELINDA S. WESTCOTT
Village Clerk/Treasurer
MISTY PHOENIX
Deputy Clerk/Treasurer



MUNICIPAL BUILDING
21 NORTH STREET PO BOX 29
WALTON, NY 13856
607-865-4358
vclerk@stny.ny.gov
www.villageofwalton.com
TDD 1-800-662-1220

BRIAN LAAUSER
Acting Police Chief

ROGER D. HOYT
Public Works Superintendent

STEPHEN L. DUTCHER
Code Enforcement Official
BRIAN SPRAGUE
Recreation Department Head

December 4, 2012

Office of the State Comptroller
44 Hawley Street
Binghamton, NY 13
Attn. H. Todd Eames, Binghamton Regional Chief

Dear Sir:

Thank you for your recent audit of the Village of Walton. The Board of Trustees and I are taking your recommendations seriously, and we are working to develop assurances that proper procedures are implemented. We appreciate that as a result of your audit, we are engaging in meaningful conversations about our shared accountability for the fiscal procedures, including the administration, the Trustees, and department heads.

Sincerely,

Patrick G. Meredith
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We assessed the financial operations of the Village of Walton for the period of June 1, 2010 through February 22, 2012. We expanded our scope through February 29, 2012 to compare checks that cleared the bank that month to the accounting records, through May 31, 2012 to review bank statement balances for all Village bank accounts, and through June 30, 2012 to review bank deposits-in-transit from May 2012. To accomplish our audit objective and obtain valid and relevant audit evidence, we interviewed appropriate Village officials and tested selected records and transactions, examined pertinent documents, and performed the following procedures:

- We interviewed Village officials and employees about existing internal control systems over financial condition, cash receipts and disbursements, payroll, purchasing, claims auditing, and information technology. We also inquired about the Village's budget development process for the 2012-13 fiscal year and the reports prepared and provided to the Board.
- We analyzed the Village's financial information reported to OSC from the 2005-06 through 2009-10 fiscal years to determine if the Village's financial condition was declining.
- We reviewed the trend of the property taxes for the 2006-07 through 2012-13 fiscal years by reviewing the respective tax rolls to determine the percentage of change.
- We evaluated the total amount of fund balance appropriated for the 2005-06 through 2009-10 fiscal years to verify that the Village had sufficient fund balance available to use as a financing source.
- We reviewed the budget-to-actual reports for the 2010-11 and 2011-12 fiscal years through January 31, 2012 to determine if there were any over-expended budget appropriations during our audit period.
- We reviewed total expenditures for the 2011-12 fiscal year as of February 22, 2012 and compared this total to the adopted budget to determine what percentage of the total budget was expended at this date, and whether total budget appropriations were over-expended.

Cash Receipts and Disbursements:

- We reviewed 45 disbursements to ensure that they agreed with the respective canceled check images, were adequately supported, were appropriate Village expenditures, and that Village officials complied with their purchasing policy. We judgmentally selected our sample by choosing those disbursements paid during the audit period to vendors with unfamiliar municipal vendor names, to Village officials, for purchases requiring competition, and to utility companies.
- We reviewed all 73 inter-fund bank transfers, outgoing bank wire transfers, withdrawals, and charge-backs for July 2010 and December 2011 to ensure that all transactions for those months were adequately supported and for appropriate Village purposes.

- We reviewed the bank statements during our entire audit period for any bank overdraft, insufficient fund, and account inactivity fees charged to the Village.
- We reviewed a sample of 17 journal entries to ensure they were adequately supported and were for appropriate Village purposes, by tracing them to supporting documentation including bank statements, internal transfer reports, and cash receipt journals. We judgmentally selected our sample to include entries totaling more than \$18,900, and credits to Village cash accounts from the 353 non-payroll journal entries entered into the financial software during our audit period.
- We reviewed the most recently completed bank reconciliations¹⁷ for all 20 Village bank accounts to determine if they were accurately prepared. Because the bank reconciliations and records were not completed in a timely manner, we documented the balance in each of the 20 bank accounts as of May 31, 2012 and used the manual cash register sheets and the June 30, 2012 bank statements to determine the deposits-in-transit for May 2012.
- We reviewed the bank statements for all checks that cleared the bank and compared that check sequence to the financial software's check sequence for the audit period to determine whether any checks were not recorded.
- We compared all 45 voided checks recorded in the financial software to the checks that cleared the bank during our audit period to identify any that had not cleared the bank.
- We reviewed 182 general fund receipts received in July 2010 and August 2011. We traced these receipts to duplicate receipt books and/or the manual cash receipt journal to ensure the amounts received were recorded and deposited in a timely manner.
- We traced all 1,190 water and sewer receipts received in July 2010 and August 2011 from the financial software to the customer receipt stubs, duplicate deposit slip, and bank statements to ensure that the amounts received were recorded and deposited in a timely manner.
- We compared the May 2011 unpaid water and sewer report with the amount re-levied on the 2011 tax roll to ensure the amounts agreed.
- We mailed confirmation letters to all 11 individuals with water and sewer unpaid account balances in excess of \$460 as of May 23, 2012.
- We summarized the total amount of receipts not recorded in the financial software that were recorded in the manual cash receipt journals from August 1, 2011 through February 22, 2012.

Payroll:

- We reviewed payroll payments made to 13 Village employees of the 87 individuals paid during our audit period. We selected our sample by reviewing 10 Village positions held by 13 different individual employees.¹⁸ We recalculated these employees' gross wages paid for July 2010 and December 2011 to determine whether the amounts paid were properly supported and paid in accordance with Board-approved rates and contracts, and whether the withholdings deducted from the gross wages were accurate and adequately supported.

¹⁷ As of March 31, 2011 for all accounts except the payroll account which was reconciled through February 28, 2011

¹⁸ Our sample included the Mayor, Clerk-Treasurer, Deputy Clerk-Treasurer, Acting Police Chief, Department of Public Works Superintendent, two employees from the Police and Public Works departments, and one from the Justice Court.

- We reviewed leave accruals records for these 13 employees to determine if the records were accurately maintained, complete, and up-to-date. Seven of the 13 employees did not have leave records because either they were part-time, and not entitled to accumulate leave, or they were no longer employed; therefore, we reviewed the remaining six employees' leave records.
- We reviewed the total payroll withholdings for five payroll periods paid during July 2010 and December 2011 to ensure that the deductions were properly paid to the respective third parties.¹⁹
- We reviewed all 87 Village employees' personnel files containing employment eligibility verification and/or W-4 Federal tax withholding forms to verify that they were legitimate Village employees.
- We reviewed the payroll check sequence within the payroll module of the financial software to verify the check sequence integrity and compared any missing check numbers with the bank statements from our audit period to ensure the checks did not clear the bank.

Purchasing:

- We sent out conflict-of-interest letters to all Village officials²⁰ during our audit period to confirm that there were no potential conflicts of interest.
- We verified that five larger assets totaling \$69,730 purchased by the Village during our audit period were physically located at the Village.
- We compared the price that the Village paid for 37 fuel purchases²¹ made during our audit to the State contract price paid, per the Office of General Services' (OGS) website for Delaware County. For gasoline, we selected a sample of 20 purchases by reviewing fuel invoices for four months (September 2010, November 2010, November 2011 and February 2012).²² We reviewed gasoline purchases on these invoices for four to six days selecting purchases with the most variety in number of gallons purchased. For diesel fuel we reviewed 11 invoices (five from the 2010-11 fiscal year and six from the 2011-12 fiscal year) with the highest dollar amounts out of the 23 paid during our audit period and reviewed all 17 diesel purchases from these invoices. We compared the invoice price per gallon to the State contract price per OGS website to determine if the Village was paying more than State contract price for fuel.

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 objectives.

¹⁹ Village health insurance providers, the U.S. Internal Revenue Service, the New York State Employees' Retirement System (ERS), and the New York State Department of Taxation and Finance

²⁰ Current and former Mayor, Board Trustee Members, current and former Clerk-Treasurer, current and former Deputy Clerk-Treasurer, Department of Public Works Superintendent, and Acting Police Chief

²¹ Comprising eight unleaded gasoline purchases, 12 premium gasoline purchases, and 17 diesel fuel purchases

²² We judgmentally selected two months of fuel purchases paid before the current Clerk-Treasurer was appointed and two months paid afterward.

APPENDIX C

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 D
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-Bufferalo@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 AUDITS

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