



Village of West Winfield

Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

June 1, 2009 — January 31, 2011

2011M-252



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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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 or Trustee 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 West Winfield, entitled Internal Controls Over Selected 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 West Winfield (Village) is located in Herkimer County and has a population of about 830. The Village is governed by an elected Board of Trustees (Board) which is composed of a Mayor and four Trustees. The Board is responsible for the general management and control of the Village's financial affairs.

The Mayor, who is a member of the Board, is the chief executive officer and appoints the Clerk-Treasurer. The Clerk-Treasurer is the chief fiscal officer and Clerk of the Board.

The Village provides various services to its residents including ambulance service, street maintenance, snow removal, water distribution, refuse service and general government support. In addition, the Village provides fire protection to its residents, and by contract to the residents of the Town of Winfield. The Village's 2010-11 operating budget totaled about \$542,000 for the general fund and \$104,000 for the water fund.

Scope and Objective

The objective of our audit was to examine internal controls over selected financial activities for the period June 1, 2009, to January 31, 2011. We extended the scope of our audit back to June 1, 2006 when reviewing the Village's filing of its annual update document. We extended the scope of our audit for conflicts of interest to April 30, 2011 and for the current Certificate of Need for the Ambulance Service to May 2011. Our audit addressed the following related questions:

- Did the Board adequately segregate the duties of the Clerk-Treasurer and provide oversight of the financial operations of the Village?
- Does the Clerk-Treasurer maintain adequate and complete records and prepare financial reports timely?
- Did the Board adequately oversee the billing and collection of ambulance fees?
- Did any Village officials have prohibited interests in contracts with the Village?

Audit Results

The Board needs to improve its oversight of the Village's financial operations. The Board did not adequately segregate the Clerk-Treasurer's duties and did not audit or contract for the audit of the

Clerk-Treasurer's financial records. The Clerk-Treasurer did not maintain adequate and complete records and did not provide the Board with adequate monthly or annual financial reports. As a result the Board could not adequately oversee the Village's financial operations.

The Board also needs to improve its oversight of the billing and collection of ambulance fees. The Board did not set the fees for the ambulance service, has not established any policies or procedures for the schedule of fees or the billing, and has not established procedures for the collection and write-off of outstanding fees. As a result, the Board has no assurance the fees charged are sufficient to cover the cost of operations, that all services provided are being billed and that all moneys due are collected. In addition, it is unclear if the Village's ambulance service is operating as a separate department of the Village or as a part of the Village Fire Department. If it is operated by the Fire Department, the Village cannot legally charge fees for these services.

Finally, we found that a Trustee is the sole owner and managing member of a fabrication/equipment rental limited liability company (LLC). During the Village's 2010-11 fiscal year, the Village made payments to the LLC totaling \$2,630. As the sole owner and managing member of the LLC, the Trustee is deemed to have an interest in the contracts because he is a member of a firm, partnership or association which has contracted with the Village. Since the Trustee, as a member of the Board, had the power, among other things, to audit and approve claims for payment, that interest is prohibited.

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 generally agreed with our recommendations and indicated they planned to take corrective action.

Introduction

Background

The Village (Village) of West Winfield is located in Herkimer County and has a population of about 830. The Village is governed by an elected Board of Trustees (Board) which is composed of a Mayor and four Trustees. The Board is responsible for the general management and control of the Village's financial affairs.

The Village provides various services to its residents including ambulance service, street maintenance, snow removal, water distribution, refuse service and general government support. In addition, the Village provides fire protection to its residents, and by contract to the residents of the Town of Winfield. The Village's 2010-11 operating budget totaled about \$542,000 for the general fund and \$104,000 for the water fund. Expenditures for the general fund were primarily funded by real property taxes, ambulance revenues, a fire protection contract, sales tax and State aid. Expenditures for the water fund were primarily funded by water rents.

The Mayor, who is a member of the Board, is the chief executive officer and appoints the Clerk-Treasurer. The Clerk-Treasurer is the chief fiscal officer (CFO) and Clerk of the Board. As CFO, the Clerk-Treasurer is responsible for the custody of Village moneys, maintaining appropriate accounting records, and preparing monthly and annual financial reports. As Clerk of the Board, the Clerk-Treasurer is charged by Village Law with custody of the Village's corporate seal, books, records and papers and all of the Board's official reports and communications, and is responsible for keeping a complete and accurate record of the Board's proceedings. 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.

Objective

The objective of our examination was to assess internal controls over selected financial operations. Our audit addressed the following related questions:

- Did the Board adequately segregate the duties of the Clerk-Treasurer and provide oversight of the financial operations of the Village?
- Does the Clerk-Treasurer maintain adequate and complete records and prepare financial reports timely?

- Did the Board adequately oversee the billing and collection of ambulance fees?
- Did any Village officials have prohibited interests in contracts with the Village?

**Scope and
Methodology**

We reviewed the Village’s segregation of duties, Board oversight, and records and reports for the period June 1, 2009, to January 31, 2011. We extended the scope of our audit back to June 1, 2006 when reviewing the Village’s filing of its annual update document. We extended the scope of our audit for conflicts of interest to April 30, 2011 and for the current Certificate of Need for the Ambulance Service to May 2011.

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

**Comments of
Local Officials and
Corrective Action**

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

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Village Clerk’s office.

Board Oversight

Oversight is defined as the management, direction, control, and monitoring of an activity. The Board is responsible for the oversight of the Village's financial operations. The Board fulfills this responsibility in part by instituting appropriate internal controls over the Clerk-Treasurer's duties, performing annual audits and safeguarding Village assets. It is essential that Board members understand the extent of oversight required to meet their responsibilities to Village taxpayers.

We found that the Board needs to improve its oversight of the Village's financial operations. The Board did not adequately segregate the duties of the Clerk-Treasurer and did not audit or contract for the audit of the Clerk-Treasurer's financial records. Furthermore, the Board did not ensure that refuse sticker inventories were adequately accounted for and safeguarded.

Segregation of Duties

A key component of an effective system of internal controls is the segregation of incompatible duties. A proper segregation of duties ensures that no one person controls, or has the ability to control, all phases of a transaction. Concentrating key duties with one individual (i.e., accounting records maintenance, cash custody, and reconciliations), with little or no oversight, weakens internal controls and significantly increases the risk that errors or irregularities could occur and remain undetected. When it is not feasible to segregate duties, the Board should establish compensating controls, such as management oversight, or the monthly reconciliation of bank balances by someone who does not have the ability to enter or modify transactions in the accounting records.

We found the Board did not adequately segregate the Clerk-Treasurer's financial duties or establish compensating controls. The Clerk-Treasurer was receiving cash, making deposits, recording cash receipt and disbursement transactions, and preparing, signing, and disbursing checks. An office clerk was also responsible for receiving cash, making deposits, recording revenue and reconciling bank accounts. If the office clerk did not complete the bank reconciliations, the Clerk-Treasurer would complete the reconciliations. Consequently, the Clerk-Treasurer had the ability to control all aspects of the Village's financial and recordkeeping duties. Because of the lack of segregation of duties, the Clerk-Treasurer could misappropriate Village funds and adjust the Village records to conceal inappropriate transactions. Despite this lack of segregation of duties, the Board did not designate anyone to periodically review the Clerk-Treasurer's records, bank statements, canceled checks, or bank reconciliations during our audit period.

To address these risks, we obtained information such as contracts, State aid reports, county payment reports, tax rolls, and departmental records to identify the independent revenue sources that are expected to be received by the Clerk-Treasurer. We examined revenues totaling about \$537,000¹ to ensure they were deposited into the Village's bank account and disbursements totaling about \$197,000 to ensure they were Board-authorized. Although we did not identify any significant discrepancies, this does not diminish the need for the Board to adequately segregate duties and/or provide more oversight.

Annual Audit

Village Law requires that the Board annually audit the Clerk-Treasurer's records and reports, or cause them to be audited by a Village officer or employee or an independent auditor. Indications that an audit was performed should be entered in the Board's minutes. This annual audit provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Village's fiscal procedures. Audit results can also help the Board to monitor the performance of the Clerk-Treasurer who has been entrusted with recordkeeping and other financial responsibilities.

The Board did not audit, or cause to be audited, the financial records of the Clerk-Treasurer during our audit period. According to the Mayor, he was not aware of the audit requirement. The Board's failure to perform an annual audit diminishes its ability to effectively monitor the Village's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected. Moreover, if the Board had conducted an annual audit, it may have identified the poor records of the Clerk-Treasurer and the failure of the Clerk-Treasurer to file the required annual financial report. (See the finding entitled Clerk-Treasurer.)

Refuse Sticker Inventory

The Board is responsible for establishing procedures to help ensure that refuse stickers are properly accounted for and safeguarded, to protect against the risk of loss and abuse. These procedures should require that stickers purchased are pre-numbered, sold in numerical order, and secured adequately with access limited to only those responsible for their sale. Someone other than the Clerk-Treasurer, who processes the refuse sticker transactions, should maintain perpetual inventory records to show the number of stickers purchased, sold and the balance remaining on hand. In addition, the inventory balances in the perpetual records must be periodically reconciled to the physical inventories, and material discrepancies investigated and resolved.

¹ \$150,119 – Herkimer County and NYS; \$178,490 and \$177,681 – 2009-10 tax rolls; \$178 — penalties; \$4,757 – water billing; \$18,195 – ambulance; \$6,931 – refuse; and \$1,021 – miscellaneous.

The Village contracts for refuse and recyclables removal for Village residents. The Village residents pay for this service through the purchase of refuse stickers, which the residents attach to their trash bags. There is no corresponding charge for recyclables removal. The Village sells the refuse stickers to two local vendors from which the Village residents purchase stickers. During our 20-month audit period, the Clerk-Treasurer attributed about \$55,000 to refuse sticker sales (equaling about 19,000 refuse stickers) and approximately \$67,000 to refuse collection expenditures.

The Board did not establish procedures to ensure that the refuse sticker inventory was adequately accounted for and safeguarded. The Board did not assign anyone to monitor or account for refuse stickers. The Clerk-Treasurer was responsible for ordering and monitoring stickers because the stickers are sold in her office. The Clerk-Treasurer did not maintain any inventory records of stickers. Refuse stickers were not pre-numbered or adequately secured. The stickers are kept in an unlocked cabinet in her office allowing anyone with access to the office to have access to the stickers. Without established procedures to include adequate oversight of the Clerk-Treasurer, pre-numbered stickers or a perpetual inventory, the Board cannot ensure all refuse stickers are properly accounted for and there is an increased risk for errors or irregularities to occur.

Recommendations

1. The Board should segregate the Clerk-Treasurer's duties. If that is not possible, the Board should take a more active role providing oversight of the Village's financial records. For example, someone other than the individual responsible for cash transactions should open and review bank statements.
2. The Board should audit, or cause to be audited, the Clerk-Treasurer's financial records and reports on an annual basis, as required by Law.
3. The Board should develop procedures to reconcile refuse stickers purchased to those sold and on hand, investigating any differences. The Board should also consider purchasing pre-numbered refuse stickers.

Clerk-Treasurer

The Clerk-Treasurer, as the Village's CFO, is responsible for performing basic accounting functions including maintaining adequate accounting records, which provide the basis for periodic reports to the Board. As such, it is essential that these records must be complete, accurate, and current to be relevant and useful to effectively manage Village operations. The Treasurer is responsible for preparing and filing the Village's AUD with the Office of the State Comptroller (OSC) following the close of the fiscal year. The failure of the Clerk-Treasurer to perform these duties in a prudent manner could result in Village assets being misappropriated, lost, or stolen.

The Clerk-Treasurer does not maintain adequate and complete records and does not prepare financial reports timely. The last AUD prepared and filed with OSC was for the fiscal year ending May 31, 2006. The Clerk-Treasurer's detailed records were incomplete, inaccurate and unreliable and monthly reports lacked sufficient information for the Board to make informed financial decisions.

Financial Reports

Good management practices include the preparation of monthly financial reports for the Board and public to review. The monthly reports should include cash balances, cash receipts collected and cash disbursements made during the month, comparisons of actual revenues and expenditures to amounts estimated in annual budgets, and bank reconciliations along with bank statements. Detailed and accurate monthly reports provide vital information to assist the Board in making informed decisions on the Village's financial operations throughout the fiscal year.

The Clerk-Treasurer did not provide the Board with sufficient monthly reports that would enable them to adequately monitor the Village's financial activity. The Clerk-Treasurer provided a monthly financial report which included adjusted bank balances and total cash receipts and cash disbursements. However, monthly budget to actual reports² and bank reconciliations or bank statements were not provided during our audit period.

We tested the reliability of three of the monthly financial reports, June and October 2009 and January 2011, by comparing the reported cash balances to the check stub/registers, as this was the cash control account used by the Clerk-Treasurer. We found recording errors

² As of February 2011 a budget to actual report was attached to the monthly financial report given to the Board.

where the check stubs/register showed \$1,077 less expense than the monthly financial reports.

The Clerk-Treasurer is responsible for filing the Village's AUD with OSC and in the Village office within 60 days after the close of the fiscal year. AUDs are an essential tool for the Board to provide adequate oversight of Village operations and to monitor the Village's financial condition. The Clerk-Treasurer has not prepared and submitted the required AUDs for the fiscal years ending May 31, 2007³ through May 31, 2010. The Village Board hired an outside accountant during 2009 to help the Clerk-Treasurer prepare the delinquent reports. However, the outside accountant only helped prepare the fiscal year ending May 31, 2006 AUD on July 9, 2009, about three years late. The failure to file an accurate and timely AUD denies the Board and the public a primary fiscal tool to monitor the financial affairs of the Village.

Due to the lack of adequate monthly and annual financial reports the Board is unable to adequately oversee the financial operations of the Village.

Accounting Records

In accordance with Village Law, the Clerk-Treasurer must maintain organized, accurate, and up-to-date records of all Village financial transactions. The Clerk-Treasurer is also the legal custodian of all other Village records, including, but not limited to, records for tax receipts, water billings and receipts, refuse sticker billings and receipts, ambulance receipts, and Board meeting minutes. Also, the disbursement of Village money should be supported by suitably documented claims⁴ that are listed on an abstract⁵ which is required to be prepared by the Clerk-Treasurer and certified by the Mayor.

Basic accounting records include complete cash receipts and disbursements journals providing a chronological list of all cash transactions, and revenue and expenditure ledgers classifying individual related transactions according to the accounts in the annual budget. The individual entries recorded in these journals and ledgers should be summarized on a monthly basis and the summary totals recorded in the appropriate control accounts in the general ledger. The Clerk-Treasurer should routinely reconcile corresponding control receivables balances to detailed real property taxes, water rents and ambulance subsidiary records.

³ While we were on site, the Clerk-Treasurer filed the 2007 AUD in June 2011.

⁴ Claims are bills or invoices submitted by vendors requesting payments for services rendered or materials furnished to the Village.

⁵ The abstract of the claims identifies each claim and includes the vendor, the amount, the account code and the aggregate amount to be paid.

We found that Village records were incomplete and contained errors. The Clerk-Treasurer, along with an office clerk, maintained manual records through September 2010. The Board hired an additional office clerk in November 2010 to enter cash transactions from the manual records as of June 1, 2009⁶ into a computerized accounting system. The Clerk-Treasurer continues to maintain manual cash receipt and disbursement journals. She does not maintain manual general ledgers for cash, but rather uses check stubs or check registers as a cash control account and reconciles the bank statements to the check stubs/registers. Furthermore the Clerk-Treasurer did not prepare any abstracts.

We examined the accounting records and reports to determine whether the records were complete and accurate. Our review revealed inadequate accounting records including the following:

- Control Accounts — Control accounts must be maintained for all receivables and periodically reconciled with the detailed customer accounts to help ensure the accuracy of the records and to detect errors or irregularities. The Clerk-Treasurer maintained a control account for real property taxes but did not maintain control accounts for water or ambulance receivables. In 2009-10 water revenues were approximately \$90,000 and ambulance revenues totaled approximately \$58,000. According to the Clerk-Treasurer, she did not have time to maintain other control accounts. Without maintaining control accounts that are supported by detail customer accounts and investigating any differences found in a reconciliation, there is no assurance that all accounts are billed correctly or that the Village is collecting all revenues due.
- Disbursement Records — The Clerk-Treasurer is required by Village Law to prepare a certified abstract to be signed by the Mayor, ordering the Clerk-Treasurer to pay Village claims. The abstract serves as support to pay claims against the Village. The Clerk-Treasurer did not prepare or maintain abstracts; however, she did maintain approved claims and contracts for support of the disbursements. Board members initial and date claims to indicate their approval to pay, and contract approvals are indicated in Board minutes.
- Water Billing Process — We found inconsistencies and errors in the invoicing and accounting records for the water billing. Meter cards are sent to customers, who record the water meter

⁶ For fiscal year 2009-10 general and water fund information was entered into the electronic program. For fiscal year 2010-11, general, water, elderly, youth, library, and trust and agency information is entered into the electronic program.

readings and return the cards to the Village. The office clerk creates a water bill based on the meter reading card, records the charge and issues a bill. We tested approximately 10 percent of all water user accounts, a total of 32 accounts, totaling \$4,757, over two billing cycles and found several inconsistencies and errors. For example: individual customer water records are not always updated for payments and billings; debt fees, meter rental fees and minimum charges were applied inconsistently; and late fees were charged at the discretion of the Clerk-Treasurer and the office clerk. Although, the total amount of these inconsistencies and errors were not significant, the fact that these errors occurred without being detected or corrected indicates that the water billing process needs to be improved. Furthermore, we found no evidence of written Board authorization for the debt fees, meter rentals, minimum charges, rates for customers outside the Village, and penalties charged to customers. For example, the four customers outside the Village⁷ are charged 150 percent of the inside-the-Village rate without documented Board authorization. The Clerk-Treasurer and the Board indicated that they were aware of numerous errors occurring regularly; however, neither took corrective action.

- Refuse Sticker Process — We reviewed all 16 refuse sticker payments made by third party vendors for a two-month period which totaled \$6,931. We verified that third party vendors received invoices and traced those payments to the Village and the deposit into the Village's general fund checking account. Although an invoice summary sheet⁸ is maintained, it contained errors and omissions and was not sufficient to be able to verify all cash was deposited. Receipt numbers were not recorded in the cash receipt ledger. Therefore, it is not possible for Village officials to reconcile the invoice summary sheet. We found that some invoices were not listed on the summary sheet, an invoice was issued twice to two separate vendors and invoice totals (amount and quantity) did not agree with the summary sheet.

The Clerk-Treasurer's failure to maintain accurate and current accounting prevents the Board from having critical information to make essential financial decisions. Also, the lack of reasonable assurance that all financial information is properly recorded in the

⁷ The four outside users are the high school, the elementary school, the bus garage, and one residence.

⁸ The invoice summary sheet is a columnar page which shows date (of invoice), from whom received, invoice number, number of stickers sold, amount due, amount paid, date (of payment), and balance.

accounting records and reported in financial reports increases the risk that improper cash transactions could occur and go undetected and uncorrected.

Recommendations

4. The Board should adopt and implement financial reporting system procedures to help ensure that the Village's AUD is filed with OSC in a timely manner.
5. The Clerk-Treasurer should provide the Board complete and accurate financial records on a monthly basis, including budget to actual reports, bank reconciliations and the corresponding bank statements.
6. The Clerk-Treasurer should ensure that all Village financial transactions are properly recorded and reported in a manner to allow the Board and taxpayers to gain assurance that the Village's assets are properly safeguarded.
7. The Clerk-Treasurer should maintain control accounts for all receivables which should equal the total of all balances in the related individual customer billing accounts for real property taxes, water rents, and ambulance receipts. The receivable control account's balance should be compared and reconciled periodically with the total of all the balances recorded in related individual customer billing accounts.
8. The Clerk-Treasurer should ensure all disbursements are properly authorized through the use of abstracts certified by the Mayor.
9. The Board should authorize the debt service water rates, the meter rental fees, minimum charges, penalties and the rates for customers outside the Village limits and ensure these fees and charges are applied consistently.

Ambulance Service

Villages are authorized by GML to provide, directly or by contract, emergency medical service, a general ambulance service or a combination of those services for the purpose of providing pre-hospital emergency treatment and transporting sick or injured to a hospital or other place of treatment. Village boards may establish a schedule of fees or charges to be paid by persons using ambulance services. The fees must be reasonably related to the municipality's cost of providing the particular service and should not be designed to generate revenue in excess of the cost of the service. In addition, the board should ensure all fees for services rendered are billed and that no billing adjustments are made without prior board approval. However, if a village board chooses to authorize its fire department to provide ambulance service, a village is prohibited from imposing user fees for ambulance services.

In the Village, emergency medical technicians (EMTs), also known as volunteers,⁹ complete Patient Care Reports (PCRs) for all ambulance service calls and provide the reports to the Clerk-Treasurer. PCRs are forwarded to a third party billing service (third party) to create patient bills and collect fees. The third party forwards the fees collected to the Clerk-Treasurer for deposit in a Village bank account.¹⁰ The third party charges the Village a fee for its services which is generally based on a percentage of the collections.¹¹

The Village collected approximately \$163,000 in fees during our audit period for advanced and basic life support services. The Clerk-Treasurer attributed approximately \$66,000 to operational costs of the ambulance service. We found that more than \$200,000 in ambulance service fees was written off by the Village.

The Board failed to adequately oversee the billing and collection of ambulance fees. The Village Board did not set the fees for the ambulance service. The Village Board has not established any policies or procedures for the schedule of fees or the billing, collection and write-off of outstanding fees. As a result, the Board cannot ensure

⁹Subsequent to our audit period the Board contracted for ambulance service coverage for 90 days, to cover the hours when the volunteer EMTs were not available.

¹⁰ From January 2010 through January 2011, Medicaid and Medicare payments totaling approximately \$74,000 were deposited directly into a Village bank account.

¹¹ The Village paid the third party \$20,185 for the period June 1, 2009 to January 31, 2011.

the fees charged are reasonably related to the cost of operations or that all services provided are being billed and that all moneys due are collected. In addition, it is unclear if the ambulance service is operating as a separate Village department or as a part of the Village Fire Department.

Policies and Procedures — Establishing guidelines in a written policy will enable employees and officials to understand the Board’s expectations regarding billing, collection, and enforcement processes for the ambulance service. Procedures should also include a reconciliation process to ensure all services rendered are billed. The Clerk-Treasurer told us she forwards all PCRs to the third party without review and accepts payments forwarded from the third party without reconciling to the service billed or the amount received for the service. Village officials cannot verify that all services were billed because the source documents – PCRs –are not press-numbered and therefore they have no assurance that all PCRs are forwarded to the third party billing company and billed. The Village’s ambulance service brought in approximately \$163,000 in revenue to the Village from June 1, 2009 through January 31, 2011. Without Board established policies and procedures, there is no assurance all services provided are actually billed.

Clarification — A village is prohibited from imposing fees upon users of ambulance services if the village board chooses to authorize its fire department to provide ambulance services. The Mayor told us he is not sure who provides the ambulance service, but told us the Board does discuss matters related to it. We found various circumstances that suggest the Ambulance Service is operated by the Village Fire Department. For example, a Certificate of Need issued in May 2011 by the New York State Department of Health shows the West Winfield Fire Department is certified as a New York State ambulance service. In addition, the current agreement with the Third Party Billing Company is between the billing company and the Fire Department, not the Village.¹² Also, the side of the ambulance is emblazoned with the words: “West Winfield Fire Dept Ambulance” and EMTs who operate the ambulance are also included on the Fire Department roster. In addition, the emergency medical services captain, who is a member of the Fire Department, approved a schedule of fees and an increase in the ambulance service fee for 2011. All ambulance claims for purchases are departmentally approved by the Fire Chief.

If the Village Fire Department is providing these services, then the Village does not have authority to charge fees for the service. Therefore,

¹² The current agreement between the Third Party Billing Company and the Fire Department is dated 1994; it shows no expiration date.

it is important for the Board to clarify whether the Fire Department or a separate Village department is providing the ambulance service so it can determine its authority to collect the associated fees.

Schedule of Fees — When fees are charged for ambulance services, the village board must fix a schedule of fees or charges to be paid by persons requesting the use of the ambulance services; however, a municipal fee for a service must be reasonably related to the village's cost of providing the particular service and should not be designed to generate a profit. We found the Board does not set fees for the ambulance services. The fees for 2011 ambulance services were approved by the emergency medical services captain. According to a Trustee, the third party suggested the rates based on the fees of other local providers in the area and the emergency medical services captain, who is a member of the Fire Department, approved the ambulance service rates. In addition, we did not find any correlation between the established fees and the cost to provide the service. The Village collected about \$163,000 in ambulance revenues and the Village Clerk-Treasurer attributed expenditures for the provision of ambulance service of approximately \$66,000,¹³ which includes the cost of the third party billing company of about \$20,000. Consequently, because the Board failed to establish and approve ambulance service fees and did not determine whether the fees were reasonably related to the cost of the service, the users may have been charged more than necessary.

Write-Offs — The governing board or other authorized supervisory personnel should approve all billing write-offs/adjustments prior to such adjustments being made. The reasons for all adjustments should be documented and retained for audit purposes. According to the third party, it has the authority to make adjustments without approval from Village officials. During the audit period, approximately \$233,000 of ambulance service fees were written off/adjusted without Board oversight or approval. Appropriate prior approval ensures that adjustments, write-offs, and refunds are made consistently. In addition, requiring Board or supervisory approval will reduce the opportunities for unauthorized adjustments. Before a delinquent charge is written off, Village officials should take reasonable steps to

¹³ These ambulance expenditures were incurred between June 1, 2009 and January 31, 2011 and represent what was expended under the ambulance code within the available Village records. We found no evidence of indirect costs in the summary of expenditures. Nor did we find anything related to future capital costs of the ambulance service. In considering costs that are reasonably related to providing the ambulance service, the Village should consider both direct and indirect costs, as well as current and future capital needs, in connection with the provision of the ambulance service.

collect the charges, otherwise, it could be considered a gift to the user. The failure of the Board to properly approve write-offs/adjustments could lead to reduced Village revenues as inappropriate write-offs/adjustments could be made without detection.

Recommendations

10. The Board should establish written policies and procedures that provide guidance for the billing, collection and write-off of outstanding fees; these procedures should include a reconciliation of services rendered and billed to ensure all services are billed.
11. The Board should clarify whether the Fire Department is operating the ambulance service or whether the Ambulance Department is a separate department of the Village. If the Fire Department is operating the ambulance service, then the Village should not charge for the service.
12. The Board should officially establish and approve fees for ambulance services. The fee schedule that is ultimately adopted should not be designed to generate a profit, but should reasonably cover all the costs related to providing the ambulance services.
13. The Board should oversee the write-off/adjustment process for ambulance services rendered and should approve the write-off of billed transactions.

Conflict of Interest

Article 18 of the General Municipal Law (GML) limits the ability of municipal officers and employees to enter into contracts in which both their personal financial interests and their public powers and duties conflict. Unless a statutory exception applies, GML prohibits municipal officers and employees from having an “interest” in contracts with the municipality for which they serve when they also have the power or duty – either individually or as a member of a board – to negotiate, prepare, authorize or approve the contract; authorize or approve payment under the contract; audit bills or claims under the contract; or appoint an officer or employee with any of those powers or duties. Municipal officers and employees have an interest in a contract when they receive a direct or indirect monetary or material benefit as a result of a contract with the Village. Among other circumstances, municipal officers and employees are also deemed to have an interest in the contracts of a firm, partnership or association of which they are a member or employee.

We found that a Village Trustee is the sole owner and managing member of a fabrication/equipment rental limited liability company (LLC). During the Village’s 2010-11 fiscal year, the Village made payments to the LLC totaling \$1,355 for equipment rentals and for a snow blower repair totaling \$1,275. As the sole owner and managing member of the LLC, the Trustee is deemed to have an interest in the contracts because he is a member of a firm, partnership or association which has contracted with the Village. Since the Trustee, as a member of the Board, had the power, among other things, to audit and approve claims for payment, that interest is prohibited unless a statutory exception applies.

GML provides an exception for contracts in which a municipal officer or employee has an interest if the total consideration payable in the aggregate during the course of a fiscal year does not exceed \$750. Our review indicates, however, that this exception does not apply as the aggregate amount of the rentals and repair services noted above exceeds the statutory limit. Accordingly, under article 18 of GML, the Trustee had a prohibited interest in the contracts with the Village.

The Trustee and the Mayor told us they were unaware of the legal limits and they were not aware that the Trustee had a prohibited interest in the contracts. Village officers are accountable to the public, especially when the expenditure of taxpayer money is involved. When Village officers, in their private capacities, conduct business with the Village in which they serve, the public may question the

appropriateness of the transactions. Such transactions may create an actual conflict of interest or the appearance of impropriety and/or may result in the improper enrichment of the officers or employees at taxpayer expense.

Recommendation

14. The Board should establish and implement controls to help ensure that the Village does not enter into contracts in which an officer or employee has a prohibited interest.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

VILLAGE OF WEST WINFIELD

P.O. BOX 308
WEST WINFIELD, NEW YORK 13191
(518) 527-3077
(518) 527-3000 FAX

Tuesday, February 14, 2012

State of New York Office of the State Comptroller
Syracuse Regional Office
Attn: Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428

RE: Response to the NYS Comptroller's Office Audit #2011M-252

The Board of Trustees of The Village of West Winfield, NY have received and reviewed the findings presented in the preliminary report (Internal Controls over Selected Financial Operations). Period Covered: June 01, 2009 - January 31, 2011. 2011M-252

The Village Board has met and discussed the finding within the report and will continue to make changes and improvements into the recommended areas, such as oversight, etc. The Board has already addressed and corrected subject matters within the report and will continue its forward progress into correcting any and all deficiencies.

I would like to add that both auditors (2) who conducted the audit on our village, were both thorough and professional in their dealings with us.

Very truly yours,



Andrew D. Bryce, Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by Village officials to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial records and reports, cash receipts and disbursements, procurement, claims processing, payroll, user charges and information technology.

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 available financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scopes by selecting for audit those areas most at risk. We selected Board oversight, Clerk-Treasurer's responsibilities, ambulance service and conflicts of interest for further audit testing.

We performed following procedures:

- We interviewed Village officials and employees, and reviewed Board minutes, Board policies and Village procedures to obtain an understanding of the Village's available records and reports, cash receipts and disbursements operations, and controls over the billing and collection of user charges.
- We reviewed the key control activities of the Village Office including the manner in which duties are assigned, checks are signed and disbursements and transfers are made.
- We verified that all bank statements and canceled checks were available.
- We obtained lists of payments made to the Village by the Town of Winfield, Herkimer County and New York State totaling \$150,119, and traced the payments to the check stub/register and bank statements.
- We reviewed two months: the last month of fiscal year (May 2010), and the last month in the calendar year (December 2010). We traced check disbursements, non-check withdrawals and transfers totaling \$196,699 from Village bank statements to Board-authorized vouchers, supporting documentation or to other Village bank accounts for the selected period.
- We compared the Village's 2009 tax roll totaling \$178,490, and 2010 tax roll totaling \$177,681, to the budget, the amount of taxes collected and deposited and/or sent to the County for re-levy. We also verified that the Village received payment from the County for the unpaid taxes and reviewed any adjustments made to the tax warrant.
- We examined tax penalties to determine if they were charged as authorized and deposited as received. For 2009 and 2010 tax roll we reviewed 10 percent of real property tax payments

totaling \$6,179 received after the due date with a total assessed penalty of \$178, by selecting every tenth payment received after the due date. We also reviewed the tax payments of the Clerk-Treasurer and office clerk to verify amounts paid and received and if a penalty was assessed, if applicable.

- We reviewed water billing and water receipts totaling \$4,757 to assess the accuracy of user charges and to determine if moneys were deposited as received. We selected a sample of approximately 10 percent of total customers by selecting every tenth customer account for two different billing periods, April 2010 and October 2010, to ensure that the bills were calculated properly and penalty was charged consistently. We also verified that unpaid accounts were levied on Village tax roll. We also reviewed the water billings, payments and deposits of the Clerk-Treasurer and office clerk for October 2009, April 2010 and October 2010.
- We tested 20 water customers to determine if unpaid water bills as of October 2010 were levied on the next year's taxes. We selected the first 20 customers in the customer ledgers who did not have a payment recorded for the October 2010 water bill.
- We reviewed relevant rules and regulations adopted by the Board relating to water user charges.
- We examined ambulance receipts totaling \$18,195 from third party revenue listings to assess if moneys received agree to deposits in the bank. We selected two months, December 2010 and January 2011, because the months are consecutive and the most current in the audit period.
- We examined refuse sticker receipts totaling \$6,931. We selected two months, December 2010 and January 2011, to determine vendor payments recorded. We confirmed the amounts paid to assess if the moneys received agree to deposits in the bank.
- We examined miscellaneous cash receipts totaling \$1,021 recorded in the Clerk-Treasurer's duplicate cash receipt book to assess if moneys received agree to deposits in the bank. We selected 10 percent (eight) or every eighth receipt of the total number of miscellaneous cash receipts recorded (84).
- We analyzed three monthly financial reports during our audit period (June 2009, October 2009 and January 2011) for accuracy; we tested for footing errors and traced back to check stubs or check registers and adjusted bank balances. We initially selected every fifth month and included the first month of our audit period, starting with June 2009. January 2011 had been reviewed during the risk assessment phase of the audit. Upon completion of three months, we determined we had enough evidence to support our conclusions and truncated our examination to the three months.
- We determined the amount of ambulance revenues for the audit period and the amount of ambulance write-offs/adjustment's and patient refunds for the audit period.
- We reviewed check stubs, cancelled checks and claims to identify payments made to Village officials and employees, their spouses and dependents or related employers, firms, corporations or associations for indications of potential conflicts of interest in Village contracts. We extended our audit period to April 30, 2011 for this purpose.

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

APPENDIX C

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Nathalie N. Carey, Assistant Comptroller

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