



Village of Wolcott Clerk-Treasurer's Misappropriation of Funds and Board Oversight

Report of Examination

Period Covered:

June 1, 2009 — December 19, 2011

2012M-32



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 through our audits, which identify opportunities for improving operations and Village 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 Wolcott, entitled Clerk-Treasurer's Misappropriation of Funds and Board Oversight. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and 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 Wolcott (Village) is located within the Towns of Butler and Wolcott in Wayne County and has a population of approximately 1,700 residents.¹ The Village provides various services to its residents, including water and sewer, police, fire protection, street maintenance, snow removal, and general government support. The general fund's 2011-12 budgeted appropriations are \$920,818, funded primarily by real property taxes, State aid, fees, and court revenues.

The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general oversight of the Village's operations. The Mayor is the chief executive officer. The Mayor appoints the Clerk-Treasurer, who serves as chief fiscal officer.

As the Village's chief fiscal officer, the Clerk-Treasurer is responsible to, among other things, have custody of all Village moneys, collect and deposit cash received, maintain the accounting records, file financial reports, and sign checks. The Clerk-Treasurer also is the tax collector for the Village, is responsible for processing weekly payroll, and ultimately is responsible for water billings and collections, which are primarily handled by the Deputy Clerk-Treasurer.

The former Clerk-Treasurer referred to in this report began her employment with the Village May 29, 2007 and resigned effective September 15, 2011, prior to the start of our fieldwork. On September 12, 2011, the Mayor and the Village's accounting consultant contacted our office concerning the identification of extra payroll checks to the former Clerk-Treasurer in the 2010 fiscal year.

Scope and Objective

The objective of our audit was to determine if the Clerk-Treasurer made only proper payments from Village funds and if the Board provided adequate oversight of the Village's financial operations. We initially examined Village records for the period covering June 1, 2009 – December 19, 2011. After identifying significant payroll discrepancies, we expanded the scope period back to June 1, 2007 for payroll to review the entire period the former Clerk-Treasurer held the position. Our audit addressed the following related questions:

- Did the Clerk-Treasurer properly perform the duties of her office, and make only appropriate and supported payments from Village funds?

¹ According to 2010 U.S. Census

- Did the Board properly oversee and manage financial operations to adequately secure Village assets?

Audit Results

The former Clerk-Treasurer took advantage of weaknesses in the Village's internal control structure, and misappropriated approximately \$68,000 of Village funds by making unauthorized payments to herself. These payments were in the form of extra payroll payments, unauthorized overtime payments, excessive health insurance buyouts, unearned leave payouts, overpayment of vital statistics fees, and payments that were inappropriately charged to the Village's records management grant. Additionally, the former Clerk-Treasurer did not maintain accurate and complete financial records and did not complete required tasks as described in grant documentation. The Village has referred the misappropriation of Village funds to law enforcement officials for investigation.

The Board created or allowed an environment which enabled the former Clerk-Treasurer to conceal the misappropriation of Village assets for more than four years. We found that the Board failed to provide sufficient oversight of the Village's financial operations. Specifically, the Board has not established an effective system of internal controls, has not adopted policies required by law or established sound business practices, did not request or receive sufficient or reliable financial information to monitor the Village's financial operations, and did not formally approve all benefits provided to Village officials and employees. Furthermore, the Board allowed the Clerk-Treasurer to perform all duties related to cash disbursements without oversight.

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 findings and indicated they planned to initiate corrective action.

Introduction

Background

The Village of Wolcott (Village) is located within the Towns of Butler and Wolcott in Wayne County and has a population of approximately 1,700 residents.² The Village provides various services to its residents, including water and sewer, police, fire protection, street maintenance, snow removal, and general government support. The general fund's 2011-12 budgeted appropriations are \$920,818, funded primarily by real property taxes, State aid, fees, and court revenues.

The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general oversight of the Village's operations. The Mayor is the chief executive officer. The Mayor appoints the Clerk-Treasurer, who serves as chief fiscal officer. The Board also is responsible for designing and implementing internal controls to safeguard Village assets from loss or misuse.

As the Village's chief fiscal officer, the Clerk-Treasurer is responsible to, among other things, have custody of all Village moneys, collect and deposit cash received, maintain the accounting records, file financial reports, and sign checks. The Clerk-Treasurer also is the tax collector for the Village, is responsible for processing weekly payroll, and ultimately is responsible for water billings and collections, which are primarily handled by the Deputy Clerk-Treasurer.

The former Clerk-Treasurer referred to in this report began her employment with the Village May 29, 2007 and resigned effective September 15, 2011, prior to the start of our fieldwork. On September 12, 2011, the Mayor and the Village's accounting consultant contacted our office concerning the identification of extra payroll checks to the former Clerk-Treasurer in the 2010 fiscal year.

Objective

The objective of our audit was to determine if the Clerk-Treasurer made only proper payments from Village funds and if the Board provided adequate oversight of the Village's financial operations. Our audit addressed the following related questions:

- Did the Clerk-Treasurer properly perform the duties of her office, and make only appropriate and supported payments from Village funds?
- Did the Board properly oversee and manage financial operations to adequately secure Village assets?

² According to 2010 U.S. Census

**Scope and
Methodology**

We initially examined Village records for the period covering June 1, 2009 – December 19, 2011. After identifying significant payroll discrepancies, we expanded the scope period back to June 1, 2007 for payroll to review the entire period the former Clerk-Treasurer held the position.

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 findings and indicated they planned to initiate corrective action.

The Village Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Village Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing your plan of action, you may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Village Board to make this plan available for public review in the Village Clerk’s office.

Clerk-Treasurer’s Misappropriation of Funds

Local government officers, whether elected or appointed, act as public servants and are responsible for carrying out the functions of their positions in a forthright and honest manner. The Clerk-Treasurer is responsible for the accurate and complete accounting of all moneys received and disbursed from Village funds. Disbursements of Village money should be made only as authorized by the Board for proper and valid Village expenditures. An inherent obligation of any public officer or employee engaged in an accounting function is to report an accurate summary of financial activity to the governing board.

The former Clerk-Treasurer took advantage of weaknesses in the Village’s internal control structure and misappropriated approximately \$68,000 of Village funds by making unauthorized payments to herself, as summarized in the following table.

Extra Payroll Checks	\$50,443
Unauthorized Overtime	\$6,780
Excessive Health Insurance Buyouts	\$7,239
Unearned Leave Payouts	\$1,062
Overpayment of Vital Statistic Fees	\$90
Payments Inappropriately Charged to Grant	\$2,865
Total	\$68,479

Additionally, the former Clerk-Treasurer did not maintain accurate and complete financial records and did not complete required tasks as described in grant documentation.

The Village has referred the misappropriation of Village funds to law enforcement officials for investigation.

Extra Payroll Checks

During our audit period, we found that the former Clerk-Treasurer misappropriated \$50,443 by issuing herself extra payroll checks. We found that the accounting records were altered, and these unauthorized disbursements were deleted and undetected for more than four years. The former Clerk-Treasurer was able to prepare, print and sign payroll checks to herself that were not recorded in the accounting records. Since these checks were printed from the financial software, it is evident that the former Clerk-Treasurer entered the fraudulent transactions, printed the corresponding checks, and then deleted them from the system. We reviewed all canceled check images for the

Village's Operating³ and Trust and Agency (T&A)⁴ bank accounts for the period June 1, 2007 through September 30, 2011. In addition to payroll checks properly authorized to the former Clerk-Treasurer, we identified 102 checks, totaling \$48,082, from the T&A bank account that were issued to the former Clerk-Treasurer and were not included on the check registers. A weakness in the financial software allowed for the deletion of these fraudulent transactions without detection. To obscure the fraud, many of the deleted checks were in the same amount as the former Clerk-Treasurer's typical net payroll check, and several were issued on the same date as, or within one or two days of, a regular payroll check.

In addition to the deleted payments discussed above, we found \$2,361 in other unsupported payments. During the first two fiscal years of her employment (2007-08 and 2008-09), the former Clerk-Treasurer issued herself four extra checks which we could not identify as related to any specific authorized salary, benefit payment or reimbursement due her.

To further obscure the fraud, the former Clerk-Treasurer took steps to ensure funds were available to cover the fraudulent (deleted) checks. Employee payroll checks are paid out of the T&A bank account. We reviewed disbursements recorded for the transfer of payroll beginning in June 2008 and found the former Clerk-Treasurer routinely transferred more money into the T&A account than was needed to cover the total recorded payroll. We found 79 transfers in amounts that exceeded the recorded payroll amount; 51 of those 79 transfers corresponded to exact amounts of deleted checks issued to the former Clerk-Treasurer.

An additional step taken to hide the fraud incorporated charging the amount of the transfers to expenditure accounts. The former Clerk-Treasurer allocated the amount of the deleted checks (or excess transfers) over 17 different account codes in the general, water, and sewer funds, including maintenance of roads (\$10,531), water purification (\$6,149), and police (\$2,210).

Because the Clerk-Treasurer performed incompatible duties with limited independent review, she was able to disburse these additional payroll checks to herself for years before detection.

Salary and Benefits

One of the Clerk-Treasurer's duties is to process payroll by making payments to officials and employees for salaries, wages and benefits,

³ The Village's operating bank account includes money for the general, water and sewer funds.

⁴ The T&A account is used for payroll payments.

only as authorized by the Board. We reviewed all payroll-related disbursements to the former Clerk-Treasurer from June 2007 to September 2011, and found that she inappropriately paid herself salary and benefits that were not authorized, as follows:

- **Unauthorized Overtime Totaling \$6,780** — The former Clerk-Treasurer began paying herself for overtime hours beginning in December 2007, immediately after she finished her six month probation. Village officials told us that, as a salaried employee, she was not eligible for overtime, and they were surprised to hear that she had been compensated for overtime. Thus, there was no documented approval of overtime, or documentation of the reason the overtime was incurred. Additionally, we question whether all overtime hours were in fact worked, given the excessive amount of hours claimed each week. For example, overtime was paid for five consecutive weeks in the month of January 2008 with an average of 20 hours of overtime per week. This includes 25 hours of overtime paid on January 2, 2008, of which 12 hours were reported as worked on New Year’s Day.
- **Excessive Health Insurance Buyouts Totaling \$7,239** — The former Clerk-Treasurer was authorized to receive a health insurance buyout payment but did not disburse these payments on the authorized schedule,⁵ and therefore, was able to make additional payments that went unnoticed. For example, in July 2008 she paid herself for seven months of buyouts totaling \$2,243 and then paid herself the equivalent of another 12 months of buyouts totaling \$3,845 in November. Additionally, in July 2011 the former Clerk-Treasurer significantly increased the health insurance buyout payment to herself without detection. Instead of paying the authorized \$397 monthly rate, she made three payments to herself of \$627, for a total of \$1,881, in the months before her employment ended.
- **Unearned Leave Payouts Totaling \$1,062** — The former Clerk-Treasurer received payouts totaling \$2,444 for 166 hours of unused leave; however, these total payouts included \$865 for 56 hours of vacation leave in excess of the amount actually accrued and available for use and payout. In addition to amounts paid out for unused leave, the former Clerk-

⁵ The union contract, which is used as the guideline for non-union officials and employees, stated that these lump sum payments were to be paid annually in the first pay period in December. Effective June 2010, the Board approved monthly payments for health insurance buyouts.

Treasurer had used more leave than the prorated amount for the part of the year worked at the time of her resignation. This overuse of leave time amounted to an additional \$197 owed to the Village.

- Overpayment of Vital Statistic Fees Totaling \$90 — The former Clerk-Treasurer received more than the total recorded receipts for vital statistics fees.⁶ We compared total recorded receipts for vital statistics fees (\$680) to total disbursements to the former Clerk-Treasurer (\$770) and found she was overpaid by \$90.⁷

Records Management Grant

The Village applied for and received a records management grant award of \$4,695 from the New York State Local Government Records Management Improvement Fund for the period July 1, 2008 through June 30, 2009. The grant was awarded for the Village to improve its records management by conducting a records inventory, developing a records management plan, reorganizing the records inventoried, and identifying and removing obsolete records for disposal consistent with State archive standards. At the completion of the records inventory, the Village was to continue to maintain the organization and storage practices initiated. As the records management officer (RMO), the former Clerk-Treasurer was to serve as project director and supervise the implementation of the project. To complete the project, the Village hired a part-time records clerk to assist the RMO.

The former Clerk-Treasurer was compensated for extra hours of work associated with this grant. She received payment for at least 416 extra hours (\$4,160) that were charged to the records management account used for the grant between January 14 and May 20, 2009. However, she did not clearly support these extra hours on her time cards. While 129.5 extra hours, valued at \$1,295, were recorded on the time cards between October 15, 2008 and May 20, 2009, they were not identified as specifically related to the grant or any other purpose, and generally were not paid in the same period in which they were recorded. Thus, there is no way to tell if the extra hours were worked for grant purposes, or if they were even worked at all. With the possibility that those extra hours could be attributable to grant work, it appears that the former Clerk-Treasurer was overpaid at least \$2,865 beyond her documented time.

There are other indications that the former Clerk-Treasurer did not earn the entire amount paid. For example, although there were some

⁶ In fulfilling the registrar position, it was practice to receive the fees as compensation because a set salary was not established.

⁷ Fees totaling \$280 were paid by the former Clerk-Treasurer to herself through the petty cash fund rather than on an itemized claim voucher.

boxes of records labeled with destruction dates indicating some work was performed, a records management plan was not developed, some prior year records had not been organized, and organized records were not maintained going forward.⁸ Furthermore, the former Clerk-Treasurer submitted an inaccurate grant project report to the New York State Education Department (SED) which indicated that all project work was completed, and that she and a part-time records clerk were paid \$1,906 and \$1,572,⁹ respectively, when in fact she was paid \$4,160 and the part-time clerk was paid only \$150.¹⁰

The misappropriation of Village funds was allowed to occur because the former Clerk-Treasurer had sole responsibility for the custody of the Village's accounting records and the Village's cash assets. This, combined with a weakness in the accounting system which allowed for the deletion of checks written, and inadequate oversight by the Board, allowed the misappropriation to remain undetected for an extended period of time.

Recommendations

1. The Board should take appropriate action to recover all misappropriated moneys.
2. The Clerk-Treasurer should maintain complete and accurate cash disbursement records. The Board should monitor the Clerk-Treasurer's compliance with this requirement.

⁸ The records not maintained included the bank statements/canceled checks for the 2007-08 and 2008-09 fiscal years for the Operating and T&A accounts, and 2009-10 for the T&A account, which were essential in discovering the misappropriation. The Deputy Clerk-Treasurer was able to access these through the electronic banking system and print them for our use.

⁹ The Grant Project budget and final report provided for \$3,478 in wages and \$1,217 in employment benefits.

¹⁰ According to the grant application, SED has the right to recoup funds if the approved activities are not performed and/or the funds are expended inappropriately.

Board Oversight

The Board is responsible for the oversight of the Village's financial operations and making sure that policies and procedures are in place to safeguard Village resources. The Board fulfills this responsibility in part by instituting appropriate internal controls to provide reasonable assurance that cash and other resources are properly safeguarded, transactions are properly authorized and recorded, and financial reports are accurate, timely, and reliable. The Board must ensure that no individual controls all aspects of financial transactions, or it must implement compensating controls to mitigate risk.

We found that the Board failed to provide sufficient oversight of the Village's financial operations. Specifically, the Board has not established an effective system of internal controls, has not adopted policies required by law or established sound business practices, did not request or receive sufficient or reliable financial information to monitor the Village's financial operations, and did not formally approve all benefits provided to Village officials and employees. Furthermore, the Board allowed the Clerk-Treasurer to perform all duties related to cash disbursements without oversight. In essence, the Board created or allowed an environment which enabled the former Clerk-Treasurer to conceal the misappropriation of Village assets for more than four years.

Segregation of Duties

Strong internal controls ensure an adequate segregation of duties so that no one individual is responsible for most or all key aspects of a transaction. When one person performs all or most of the duties related to cash collections, disbursements, recordkeeping, and reconciliation of accounts, there is increased risk that cash will be misappropriated without detection. When it is impractical to adequately segregate incompatible duties, the Board should establish compensating controls, such as assigning someone independent of the process to regularly review bank statements, canceled checks, records and reconciliations, and compare them to the transactions recorded in the financial records.

We found the Board did not adequately segregate the duties in the Clerk-Treasurer's office or implement effective independent review and verification of her work. The former Clerk-Treasurer performed most tasks with limited oversight. Specifically, she was responsible for maintaining the Village's accounting records, preparing monthly and annual financial reports, collecting taxes and other receipts,¹¹

¹¹ Receipts were then turned over to the Deputy Clerk-Treasurer, who made the deposits and entered the information into the accounting software.

receiving bank statements and canceled check images and performing reconciliations, processing payroll, and preparing, signing, and distributing Village checks. The concentration of duties with one person and the lack of cross-training also made it extremely difficult, upon the resignation of the former Clerk-Treasurer, to effectively operate the Village office.

While the Board had implemented minimal procedures to review the former Clerk-Treasurer's work, it did not implement adequate or effective compensating controls. For example, one Board member is designated to review payroll on a weekly basis; however, the review consists only of tracking leave time and overtime hours, and the Board member does not review gross pay amounts in comparison to authorized salaries, etc. Additionally, there was a lack of payroll certifications¹² during the audit period. We found that of 354 regular and special payrolls paid between June 1, 2007 and September 14, 2011, only 107 had been signed by the Mayor, and 247 payrolls (70 percent) were not certified. Further, the financial software does not provide a detailed audit trail or change report, so there is no capability to review access to the software or modifications made to the recorded information.

As a result of the lack of segregation of duties or adequate compensating controls, the former Clerk-Treasurer was able to control all phases of financial transactions without any verification of the accuracy of her work. If the Board had regularly performed or required a proper review of records, such as a review of bank statements and canceled checks, and a review of payroll records for appropriateness of amounts paid, it may have identified the misappropriations sooner.

Policies and Procedures

Written policies are a key component of adequate Board oversight, and an organization's internal control environment, because they formally establish and communicate to staff the manner in which to conduct the day-to-day operations of the organization. Written policies and procedures also provide reasonable assurance that Village assets are adequately safeguarded because clearly defined and communicated authorizations can help establish a substantial framework of internal controls. General Municipal Law (GML)¹³ requires the Board to adopt written policies relating to investments and to procurements not subject to competitive bidding, and to adopt a code of ethics. It also is important for the Board to develop written policies for finance-related

¹² A certified payroll is one that has been examined and approved by an administrator who certifies that the persons included in the payroll have regularly performed their duties in accordance with the terms of their employment, and that any additions/deductions were made according to the respective bargaining agreements, Village Law, and personnel records.

¹³ GML Section 104-b, GML Section 39, GML Section 806

areas¹⁴ to help ensure that its financial objectives are met. Finally, Village officials are responsible for developing written procedures to effectively implement the policies adopted by the Board.

The Board has not adopted policies and procedures for cash receipts and disbursements, payroll, budgeting, grant management, and information technology.¹⁵ Further, Village officials were unable to provide a code of ethics. The lack of formal policies and procedures contributed to the overall lack of segregation of duties and severely weakened the Village's internal controls. Furthermore, the failure to adopt a statutorily-required code of ethics to guide its officers and employees regarding the standards of conduct reasonably expected of them resulted in a lax and weak control environment, without strong ethical values.

The lack of appropriate policies and procedures contributed to the former Clerk-Treasurer being able to misappropriate Village funds without immediate detection.

Payroll and Benefits

The primary objective of internal controls over payroll is to ensure that employees receive only the wages, salaries, and fringe benefits to which they are entitled. The Board must authorize and document the approval of salaries and hourly rates of all officers and employees, as well as the benefits provided to them. Generally, this may be done by Board resolution at the Board's annual organizational meeting and/or with written personnel policies or employment agreements.

The Board has not formally established and approved all employee benefits provided to officials and employees. Village officials told us that based on past practice, the Village provides benefits, such as leave time and health insurance to non-union employees, that follow the union agreement provisions, but this practice has not been formally authorized. One of the benefits the Board informally extended to non-union employees was the health insurance buyout (or lump sum payment in lieu of health insurance coverage). However, the Board did not authorize a health insurance buyout rate for 2010 in the minutes, or in the union contract, which listed only TBD (to be determined) for the 2010 rate. Further, while the Board did approve certain benefits in the minutes, language was often very vague and allowed employees to make their own interpretations. We found that one individual was

¹⁴ Policies for cash receipts and disbursements, payroll, budgeting, grant management, and information technology

¹⁵ The Village has adopted an acceptable computer use policy.

overpaid \$810¹⁶ for health insurance buyouts, and we were unable to determine if an additional \$3,613¹⁷ for health insurance buyouts was overpaid to two other individuals.

Without clear and defined guidance for employee benefits, there is no guarantee that Village officials and employees are receiving benefits as the Board intended.

Financial Monitoring

The Board needs complete, accurate, and current financial information to effectively monitor the Village's financial operations and develop realistic budgets. Good management practice requires the Clerk-Treasurer to prepare and provide a monthly financial report to the Board that includes a list of receipts, disbursements, and ending balances for the month for each Village bank account, as well as a budget status report of monthly and year-to-date revenues and expenditures compared to budget estimates. At a minimum, these reports should identify unfavorable budget variances that require examination to determine the reason for the variance, such as misappropriation. The Board also should authorize timely budget amendments to maintain control over spending and ensure compliance with applicable laws.

The Board did not routinely receive or require monthly financial reports from the Clerk-Treasurer. Board members indicated that they occasionally received a Treasurer's report, listing for each fund the cash account balances from the previous month, any additions or subtractions, and the ending balances, as well as an occasional budget status report. Because the Board minutes did not indicate that any financial reports were provided, it is unknown if or how often any financial reports were provided. In addition to providing infrequent reports that did not include details of receipts and disbursements, the budget status reports that were provided were inaccurate because they included expenditures for the deleted checks, which were coded to incorrect accounts.

Without detailed interim financial reports, the Board is unable to monitor the adopted budget and ensure that the Village's financial resources are spent appropriately. The Board failed to implement corrective action to address the outside auditor's finding that various appropriations were overspent. While the Board approved budget

¹⁶ A union employee received three extra checks because the former Clerk-Treasurer did not follow the authorized payment schedule, as previously discussed in the Clerk-Treasurer finding.

¹⁷ This includes \$1,690 to the former Clerk-Treasurer and \$1,923 to another individual. While Board resolutions indicated they would receive health benefits after six months, the former Clerk-Treasurer paid them retroactively for the first six months, after that probation period had expired.

transfers, it generally did so at year end, instead of timely approving transfers as the accounts became overdrawn. We reviewed budget to actual reports from June 2008 through May 2011 for the general, water, and sewer funds and found that appropriations continued to be overspent. For example, the general fund account code for personal services for street maintenance was overspent by \$13,393 as of April 30, 2010 and \$8,613 as of April 30, 2011. As discussed above, the former Clerk-Treasurer used this account code to record \$10,531 of the deleted checks during the audit period. If the Board had received and reviewed regular financial reports and more closely monitored the budget, it could have identified and questioned variances and been more aware of the Village's financial situation, potentially uncovering the misappropriations.

Additionally, the Board has limited its ability to monitor the Village's financial operations because it has not provided for an independent review of bank statements and canceled checks, or reconciliations. As a result, it was unaware that a long-standing unaccounted for balance was maintained in the T&A bank account to prevent any overdrafts from the account.¹⁸ Maintaining additional cash in this type of account, used as a holding account for amounts owed to others, creates a greater opportunity for theft. This is even more of a concern when there is no Board resolution establishing an amount to be held, Board members are unaware of its existence, and there is no monitoring of the balance on hand to ensure the bank balance reconciles to the amount designated to remain in the account. The Board's lack of oversight of the Clerk-Treasurer's duties and limited involvement in the Village's financial activities allowed the former Clerk-Treasurer to misappropriate Village funds.

Recommendations

3. The Board should evaluate and, where practicable, assign duties and responsibilities to provide for proper internal controls. Where it is not practicable to segregate duties, the Board should establish sufficient compensating controls, such as increased oversight. This could include, for example, a review of the monthly bank reconciliations, bank statements and canceled check images in comparison to the approved abstracts and claims.
4. The Board should adopt and distribute a Code of Ethics, as required by law, and establish detailed policies and business practices and procedures for Village operations.

¹⁸ As explained to current Village officials by the outside auditor; the reconciled balance of this bank account exceeded \$12,000 as of May 31, 2011.

5. The Board should clearly authorize, in writing, all benefits to be provided to all current and newly-appointed employees. Benefits should be documented in sufficient detail to avoid misinterpretation.
6. The Board should monitor financial activities by requiring and reviewing detailed monthly financial reports, which contain sufficient and appropriate information to enable informed and timely decisions regarding Village financial operations. These reports should include cash balances, cash receipts and disbursements made during the month, a comparison of actual revenue and expenditures to budget amounts, and bank reconciliations with copies of the bank statements.
7. The Board should ensure that the Clerk-Treasurer maintains adequate, accurate and timely records and reports on an ongoing basis.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Village of Wolcott

6015 New Hartford Street
PO Box 85
Wolcott, NY 14590
Phone (315) 594-9501
Fax (315) 594-1634
vwolcott@rochester.rr.com
TDD (800) 662-1220

Gary J. Baker
Mayor

Lori A. Tyler
Clerk-Treasurer

April 4, 2012

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

Re: Village of Wolcott Audit Response

To Whom It May Concern:

The Village Board of Trustees wishes to thank the Office of the State Comptroller for their recently completed audit.

We have read the draft report of examination and concur with its findings.

In light of all that this report covers, we take the findings very seriously. We wish to review the recommendations and develop a Corrective Action Plan that will be filed within the next 90 days to address each one of the seven recommendations made by the Office of the State Comptroller.

Sincerely,



Gary J. Baker
Mayor
Village of Wolcott

Village of Wolcott is an Equal Opportunity Provider and Employer
Complaints of discrimination should be sent to:
USDA, Director, Office of Civil Rights, Washington, DC 20250-9410

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the Clerk-Treasurer made only proper payments from Village funds and if the Board provided adequate oversight of the Village's financial operations for the period June 1, 2009 through December 19, 2011. We expanded the scope back to June 1, 2007 for payroll to review the period the former Clerk-Treasurer held the position.

To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed appropriate Village officials and reviewed pertinent documents, such as Village policies, Board minutes, the union contract, and financial records and reports.
- We performed an assessment of the internal controls in place, including segregation of duties, over cash receipts and disbursements and payroll processing to determine their overall existence and effectiveness.
- We reviewed all check disbursements from the Trust and Agency bank account to the former Clerk-Treasurer and compared the canceled check images with payroll records to determine any checks not recorded through payroll. We then compared the total amount of payments to authorized compensation.
- We reviewed all time cards and payroll summary record information for the former Clerk-Treasurer. We compared hours worked on time cards to hours paid through payroll.
- We reviewed payroll transfers beginning June 1, 2008 and compared the disbursement amounts to the amounts of recorded payroll. We then reviewed the amounts per account code to identify extra amounts in the transfers and which accounts they were coded to. We compared these extra transfer amounts with the amounts of the unrecorded/deleted checks we identified.
- We reviewed pertinent documentation related to a records management grant to determine if the grant work was completed as required, and if appropriate disbursements were made to the former Clerk-Treasurer in relation to grant work.
- We compared receipts for registrar of vital statistics fees to disbursements to the former Clerk-Treasurer for such fees for June 1, 2008 – September 30, 2011. We also reviewed the purpose of petty cash disbursements to determine the amount of registrar fees paid through petty cash.
- We reviewed bank reconciliations completed by the former Clerk-Treasurer for the operating account for March, April, and May 2011. We also reviewed or completed bank reconciliations for the T&A account for June 2008 through May 2011.
- We reviewed credit card and store purchase card payments to determine if purchases were appropriate and for valid Village expenditures.

- We reviewed petty cash reimbursements for June, July, and August 2010 to determine if reimbursements were supported with proper documentation and approved by the Board.
- We reviewed cash disbursements paid through claims to the former Clerk-Treasurer to determine if payments were properly supported and for valid Village expenditures.
- We reviewed taxes collected for the 2010-11 fiscal year to determine if they were properly deposited, and penalties were assessed and deposited for late payments.
- We reviewed June, July and August 2011 water/sewer rents received to determine if they were properly recorded and deposited.
- We reviewed all bank statements and canceled check images for the Operating and Trust and Agency bank accounts for June 1, 2007 through September 30, 2011.
- We reviewed payroll summary reports for the period June 1, 2007 through September 30, 2011 to determine if the payrolls were certified by the Mayor.
- We sent confirmations to three area banks to verify the existence of bank accounts and balances and determine if there were any unidentified bank accounts opened for the Village.
- We reviewed budget to actual reports printed from the financial software to determine if accounts were allowed to become overdrawn.
- We compared deposits in the Operating and Trust and Agency bank accounts beginning in June 2008 with recorded receipts to determine if there were any unidentified deposits. We also requested additional deposit detail from the bank, as needed, to identify deposits.
- We reviewed a health insurance bill from one month of each of the fiscal years 2007-2011, to determine if employees listed were legitimate, and health insurance buyouts were appropriate according to health insurance rates and the union contract. We also reviewed buyouts compared to authorized rates.
- We reviewed all employees reported on the payroll for November 2009, to determine if their salaries/pay rates were correct as approved, hours paid were worked per time cards, and payroll check images corresponded to net pay according to payroll reported for individuals.
- We reviewed leave time hours used per payroll reports and leave time hours used per time cards, and compared these amounts with annual authorized amounts for the former Clerk-Treasurer.
- We reviewed tax withholdings for the fourth quarter in 2010 (October-December) to determine if payroll withholdings were correctly withheld and remitted in a timely manner to appropriate agencies.
- We reviewed tax withholdings for the former Clerk-Treasurer for January 2010 through December 2010 to determine if they were properly withheld and remitted.

- We determined if W2 salaries reported for 2010 were equivalent to payroll records and budgeted amounts. We reviewed the former Clerk-Treasurer's W2s for 2007 through 2010.
- We obtained and analyzed computerized data for the audit period using the Audit Command Language software to identify and review unusual transactions.

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

APPENDIX C

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