



# Village of Clyde

## Financial Management and Board Oversight

Report of Examination

Period Covered:

June 1, 2011 — January 11, 2013

2013M-96



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

August 2013

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of 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 Clyde, entitled Financial Management and Board Oversight. 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

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### EXECUTIVE SUMMARY

The Village of Clyde (Village) is located in the Town of Galen in Wayne County and has approximately 2,100 residents. The Village provides various services to its residents, including water and sewer, police protection, street maintenance, street lighting, snow and brush removal, and general government support. Budget appropriations for the general, water, and sewer funds in 2013-14 are approximately \$2.01 million, primarily funded by real property taxes, State aid, fees, and sales taxes.

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 and the design and implementation of internal controls to safeguard Village assets from loss or misuse. The Mayor is the chief executive officer. The Mayor appoints all non-elective officers, subject to Board approval, including the Clerk-Treasurer, who serves as chief fiscal officer.

On October 26, 2011, the Board decided to separate the position of Clerk-Treasurer into two positions – Clerk and Treasurer. The former Clerk-Treasurer was reappointed as the Village Treasurer (Treasurer) and the Water-Sewer Clerk was appointed to the Village Clerk (Clerk) position. This change took effect on November 1, 2011. Furthermore, effective January 1, 2013, the Village consolidated the Clerk and Treasurer positions due to the Treasurer's retirement.<sup>1</sup> The former Clerk is now the Village's Clerk-Treasurer (Clerk-Treasurer).

#### **Scope and Objectives**

The objectives of our audit were to evaluate the Village's financial management and the Board's oversight of financial operations for the period June 1, 2011, through January 11, 2013. We expanded the scope period back to 2008 and forward to May 2013 to review fund balance and budgeting trends. Our audit addressed the following related questions:

- Does the Board adequately oversee and manage the Village's budget?
- Did the Board adopt adequate policies and ensure that officials developed sufficient procedures for Village operations?

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<sup>1</sup> The Treasurer's retirement was effective December 31, 2012.

## **Audit Results**

We found that the Board and Village officials have not developed policies and procedures to govern budgeting practices and the level of unexpended surplus funds to maintain or developed long-term financial and capital plans. Lacking established long-term plans and budgetary guidance, Village officials were unable to effectively plan for the use of, or properly account for, unexpended surplus funds. As a result, the Board has adopted budgets that were not based on sound and realistic estimates of expenditures, and the Village has excessive fund balance in the general fund.

The Board has not adopted an investment policy, which is required by law, or any policies or procedures for finance-related operations. The Board has also not adopted any policies or procedures governing information technology (IT), including those related to acceptable use, data backup, online banking, disaster recovery, equipment disposal, and breach notification. As a result, the Village's financial and IT assets and resources are at a greater risk of misuse.

Additionally, the Village's unaccounted-for water for 2011-12 was 30 percent which is significantly higher than the industry standard of 10 percent. Although the Village has made significant improvements to the water system, the Board has not implemented procedures requiring the reconciliation of water produced with water billed. Therefore, the Village cannot verify to what extent, if any, the water loss issue has been resolved.

## **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 intend to implement corrective action.

# Introduction

## Background

The Village of Clyde (Village) is located in the Town of Galen in Wayne County and has approximately 2,100 residents. The Village provides various services to its residents, including water and sewer, police protection, street maintenance, street lighting, snow and brush removal, and general government support. Budget appropriations for the general, water, and sewer funds in 2013-14 are approximately \$2.01 million funded primarily by real property taxes, State aid, fees, and sales taxes.

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 and the design and implementation of internal controls to safeguard Village assets from loss or misuse. The Mayor is the chief executive officer. The Mayor appoints all non-elective officers, subject to Board approval, including the Clerk-Treasurer, who serves as chief fiscal officer.

On October 26, 2011, the Board decided to separate the position of Clerk-Treasurer into two positions – Clerk and Treasurer. The former Clerk-Treasurer was reappointed as the Village Treasurer (Treasurer) and the Water-Sewer Clerk was appointed to the Village Clerk (Clerk) position. This change took effect on November 1, 2011. Furthermore, effective January 1, 2013, the Village consolidated the Clerk and Treasurer position due to the Treasurer's retirement. The former Clerk is now the Village's Clerk-Treasurer (Clerk-Treasurer).

## Objectives

The objectives of our audit were to evaluate the Village's financial management, and the Board's oversight of financial operations. Our audit addressed the following related questions:

- Does the Board adequately oversee and manage the Village's budget?
- Did the Board adopt adequate policies and ensure that officials developed sufficient procedures for Village operations?

## Scope and Methodology

We evaluated the Village's financial management and the Board's oversight of financial operations for the period June 1, 2011, through January 11, 2013. We expanded the scope period back to 2008 and forward to May 2013 to review fund balance and budgeting trends. 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 intend to implement 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.

# Financial Management

The Board is responsible for making sound financial decisions that balance the level of services desired and expected by the Village's residents with the ability and willingness of the residents to pay for such services. It is important that the Board adopt long-term plans that set forth the Village's financial objectives and goals, and the written policies and procedures to govern budgeting practices and the level of fund balance to maintain in each fund, including established reserves.

The Board should adopt budgets that include realistic estimates of revenues and expenditures, based on actual financial results from prior years along with other relevant available data, and that use unexpended surplus funds<sup>2</sup> as a funding source, when appropriate. The Board may retain a reasonable portion of unexpended surplus funds to be used as a funding source in the event of unforeseen circumstances. The Board may also establish and place moneys into reserve funds to finance the future costs of a variety of objects or purposes.

We found that the Board and Village officials have not developed policies and procedures to govern budgeting practices and the level of unexpended surplus funds to maintain or developed long-term financial and capital plans. Lacking established long-term plans and budgetary guidance, Village officials were unable to effectively plan for the use of, or properly account for, unexpended surplus funds. As a result, the Board has adopted budgets that are not based on sound and realistic estimates of expenditures, and the Village has excessive fund balance in the general fund.

## Budgeting

The Board is responsible for formulating a budget or spending plan that balances the level of services desired and expected by Village residents with the ability and willingness of the residents to pay for such services. The budgeted amounts should be based on prior years' revenue and expenditure levels and other available information. Detailed and agreed-upon procedures are especially important to help ensure the Village properly accounts for and uses its fund balance.

<sup>2</sup> The Governmental Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

The Board has not established formal policies for developing and monitoring budgets, or establishing the appropriate level of fund balance to be retained at year end. Prior to the Treasurer’s absence,<sup>3</sup> the Board received interim financial reports that showed up-to-date actual revenues and expenditures as a percentage of budgeted amounts. Furthermore, the Treasurer would provide the proposed budgeted figures to the Board for review during the budget workshops. We found that, during the Treasurer’s absence, the Board did not receive any financial reports. Without interim financial reports, the Board cannot properly and effectively monitor the Village’s financial resources and make prudent and informed decisions that are in the best interest of taxpayers. Additionally, the Board has not appropriately budgeted for expenditures in the Village’s general fund, which has resulted in significant unplanned fluctuations in fund balance. Generally, the variance between budgeted and actual revenues was reasonable.

For perspective, Table 1 shows actual general fund expenditures as compared to appropriations for the last four fiscal years ended May 31, 2013, and the significant budget variances generated.

	2009-10	2010-11	2011-12	2012-13
Budgeted	\$1,346,922	\$1,315,424	\$1,320,189	\$1,356,092
Actual	\$1,105,331	\$1,533,485	\$1,310,229	\$1,195,600
Variance	\$241,591	(\$218,061)	\$9,960	\$160,492
Variance Percentage	22%	(14%)	1%	13%

The Board used consistent budgeted amounts for general fund expenditures in 2009-10 and 2010-11 rather than budgeting based on historical trends. As shown in the table, the Board over-budgeted expenditures for 2009-10 by \$241,591, representing approximately 22 percent of actual amounts reported. In contrast, the Board under-budgeted expenditures in 2010-11 by \$218,061 (14 percent of actual figures reported). When asked about the alternating differences, the Mayor cited several reasons that contributed to the significant size of budget-to-actual variances<sup>4</sup> Additionally, the Board’s budget estimates for 2011-12 were more accurate as opposed to the last

<sup>3</sup> The Treasurer worked part-time during 2012. She took leave around September 2012, and was available to assist the Village sporadically during the month of December.

<sup>4</sup> For the years reviewed, the reasons included the following: terminating a street maintenance employee and eliminating the position, providing part-time police department services rather than full-time service, the general fund forgiving \$101,000 in debt related to the water and sewer funds, budgeting for building maintenance that was not completed, and over-budgeting for Workers’ Compensation costs due to the County’s reorganization of the program.

two fiscal years and their estimates for 2012-13 were \$160,492 (13 percent) over-estimated that resulted from a reduction in actual expenditures as compared to the prior year.

Consistently including unrealistic expenditure estimates in Village budgets can be misleading to taxpayers. Furthermore, the Board is unable to effectively manage financial operations when its annual spending plans are based on unrealistic and unreliable estimates.

## **Fund Balance**

The Village may retain a reasonable portion of unexpended surplus funds to use as a financial cushion in the event of unforeseen financial circumstances. In addition, the Village can set aside and reserve portions of fund balance to finance future costs for a variety of specified objects or purposes. It also is important that the Village has a long-term financial plan in place to ensure that moneys accumulated in operating funds are used for appropriate and authorized purposes. Therefore, it is important that the Board maintain only a reasonable amount of fund balance and adopt budgets that include realistic estimates of revenues and expenditures and use surplus fund balance as a funding source, when appropriate.

The general fund had a significant accumulation of unexpended surplus funds, resulting from several years of operating surpluses and the practice of not appropriating significant amounts of fund balance as a financing source in the ensuing years' budgets. The general fund's unexpended surplus reached 90 percent of next year's appropriations in fiscal year 2009-10. Furthermore, in the fiscal year 2009-10, the Village generated an operating surplus of \$196,173, eliminating any need for the use of the appropriated fund balance of \$101,431. It was not until fiscal year 2010-11 that an unplanned deficit resulted in a reduction of the general fund balance. Although the fund balance has declined from its peak at May 31, 2010, the Village has continued to maintain an excessive amount of fund balance.

Table 2 shows the Village's general fund financial activity and the resulting unexpended surplus funds over a five-year period:

<b>Table 2: General Fund - Operating Results and Unexpended Surplus Funds</b>					
	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Beginning Fund Balance	\$1,399,258	\$1,491,449	\$1,687,622	\$1,358,068 <sup>(a)</sup>	\$1,301,988
Actual Revenues	\$1,313,501	\$1,301,504	\$1,205,523	\$1,254,149	\$1,339,957
Actual Expenditures	\$1,221,310	\$1,105,331	\$1,533,485	\$1,310,229	\$1,195,600
Operating Surplus/(Deficit)	\$92,191	\$196,173	(\$327,962)	(\$56,080)	\$144,357
Total Year-End Fund Balance	\$1,491,449	\$1,687,622	\$1,359,660	\$1,301,988	\$1,446,345
Less: Restricted Fund Balance	\$373,525	\$397,188	\$358,327	\$364,131 <sup>(b)</sup>	\$366,813 <sup>(c)</sup>
Less: Appropriated Fund Balance for Ensuing Fiscal Year	\$101,431	\$105,615	\$111,611	\$142,700	\$135,000
Unexpended Surplus Funds	\$1,016,493	\$1,184,819	\$889,722	\$795,157	\$944,532
Unexpended Surplus as a % of Ensuing Year's Appropriations	75%	90%	67%	59%	70%

<sup>a</sup> Includes a prior period adjustment (decrease) of \$1,498, and an undetermined difference of \$94. Beginning of year 2011-12 amount is the beginning fund balance as reported by Village on their AUD.

<sup>b</sup> Includes committed funds of \$4,900

<sup>c</sup> Includes a reserve for encumbrances of \$7,582

We also compared the Village's 2013-14 budget to the actual results of general fund operations during the 2012-13 fiscal year. As shown in Table 2, the Village's unexpended surplus funds as a percentage of the 2013-14 fiscal year's appropriations remained excessive at 70 percent. According to the Clerk-Treasurer, the Village has set up three new reserves for the 2013-14 fiscal year in an attempt to mitigate excessive, unexpended surplus funds.<sup>5</sup> Despite this effort, the Village still faces excessively high levels of unexpended surplus balance for the 2013-14 fiscal year.

Had the Board adopted a policy to address maintaining a reasonable amount of fund balance, or specified how the Board expects to use fund balance, it would have communicated the Board's intentions for the surplus and any potential reasons for continuing to raise additional revenues through taxes.

## Long-Term Planning

An important Board oversight responsibility is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important to develop comprehensive, multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Planning on a multiyear basis allows Village officials to identify revenue and expenditure trends and set long-term priorities and goals. It also allows them to assess the impact and merits of alternative approaches to financial issues, such as accumulating money

<sup>5</sup> These include reserves for the demolition of vacant buildings, police equipment, and highway equipment.

in reserve funds and the use of fund balance to finance operations. It is essential that any long-term financial plans are monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board did not develop a comprehensive, multiyear financial and capital plan, nor did it have any other mechanism in place to adequately address the Village's long-term operational and capital needs. Such plans would be a useful tool for the Board to address the excessive fund balance in the general fund.

Officials indicated that it has been a Village practice to maintain a large amount of fund balance to save for future projects, equipment purchases, or unforeseen emergencies.

## **Recommendations**

1. The Board should adopt and implement a policy for developing and monitoring budgets, including establishing the appropriate level of fund balance to be retained at year end. Village officials should develop and implement budgeting procedures.
2. The Board should adopt balanced budgets with realistic estimates of anticipated expenditures, and amounts of fund balance to be appropriated and used in the ensuing year's budget.
3. The Board should use the unexpended surplus fund balance in the general fund in a manner that benefits Village taxpayers. Such uses could include, but are not limited to:
  - a. Increasing or establishing necessary reserves
  - b. Financing one-time expenditures
  - c. Reducing property taxes.
4. The Board should develop long-term financial and capital plans that project operating and capital needs and financing sources for a three- to five-year period.

## Board Oversight

The Board is responsible for overseeing the Village's financial operations and ensuring that adequate internal controls are in place to safeguard its resources. The Board fulfills this responsibility by establishing and enforcing clear and adequate policies and procedures over financial operations and information technology (IT), and by overseeing the operations of Village departments.

The Board has not adopted a mandatory investment policy, or any policies or procedures for finance-related operations. The Board has also not adopted any policies or procedures governing IT, including those related to acceptable use, data backup, online banking, disaster recovery, equipment disposal, and breach notification. As a result, Village assets and resources are at a greater risk of misuse.

Additionally, the Village's unaccounted for water for 2011-12 was 30 percent, which is significantly higher than the industry standard of 10 percent. Although the Village has made significant improvements to the water system, Village officials have not implemented procedures requiring the reconciliation of water produced with water billed. Therefore, the Village cannot verify to what extent, if any, the water loss issue has been resolved.

### Finance-Related Policies and Procedures

Written policies governing financial operations are a key component of an organization's internal control environment, as 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 and provide evidence of management's priorities, its values and its commitment to internal controls. Clearly defined and communicated authorizations can help establish a substantial framework of internal controls. Finally, Village officials are responsible for developing written procedures to implement the Board-adopted policies.

General Municipal Law (GML) requires the Board to adopt written policies relating to investments, procurements not subject to competitive bidding, and a code of ethics. It is also important for the Board to develop written policies for other finance-related areas such as cash receipts and disbursements, payroll, budgeting, cell phones,

travel/meals/refreshments, and credit cards. Once adopted, these policies should be reviewed and updated each year to make sure they remain current.

Although the Board has adopted procurement and ethics policies, it has not adopted policies for the other finance-related operations. As a result, the Village's control environment is weak because the Board has not communicated its expectations to Village officials and employees on how to conduct Village operations. Without Board-established policies that establish guidelines, individuals are left to generate their own informal procedures which could increase the risk of errors, fraud and incurring unnecessary expenditures.

### **IT Policies and Procedures**

The Board should establish IT policies that define appropriate user behavior and describe the tools and procedures needed to protect data and information systems. These policies should address issues such as acceptable computer use, e-mail and internet use, data backup, online banking, disaster recovery, and equipment disposal. The Board is also required by law to adopt a data breach notification policy. The Board should also identify who is responsible for developing procedures to address the implementation of IT policies.

We found that the Village does not have any IT policies or procedures. The Village does not have policies regarding acceptable use, e-mail and internet use. There are no formal, written procedures for performing data backups, and backups are kept onsite and are not tested periodically. The Village does not have policies or procedures governing online banking, or an agreement with the bank regarding what practices and transactions are proper. Additionally, there is no disaster recovery plan that includes IT, formal procedures regarding surplus equipment disposal, or a breach notification policy. Due to the lack of IT policies and procedures, the Board has failed to define responsibilities and provide an appropriate framework for IT related to Village operations.

IT policies and procedures do not necessarily guarantee the safety of the Village's computer system or electronic information entrusted to the Village by taxpayers, customers, employees, and others. However, a lack of IT policies and procedures significantly increases the risk that data, hardware, and software systems could be lost or damaged by inappropriate access and use.

## Unaccounted-for Water

Unaccounted-for water<sup>6</sup> is the difference between the amount of water produced and the amount of water billed to customers and other identifiable users for a given period. Sound business practices require the Board to establish procedures for periodically reconciling water produced with water billed and then identify whether the difference is caused by recordkeeping errors, leaks, thefts, or malfunctioning meters and take appropriate corrective action when necessary.

The Federal Environmental Protection Agency (EPA) has established an industry goal of 10 percent for unaccounted for water system losses. Water loss results in a production expense for the Village for which no revenue is received. An effective water accounting system provides for the tracking of use throughout the distribution system and the identification of areas that may need attention. This is a first step in minimizing water losses, reducing system costs and increasing system revenue.

The Board has not established appropriate procedures that require preparing regular water reconciliations. Due to a lack of procedures, these reconciliations have not been completed timely. As a result, the amount of the Village's unaccounted-for water has not been determined and any necessary corrective action has not been initiated.

The Village's unaccounted-for water, of approximately 30 percent for 2011-12, was significantly higher than the industry standard. The Board has taken significant corrective actions to mitigate unmetered water loss<sup>7</sup> from thefts and malfunctioning meters. However, the Board has not provided adequate oversight of the water operations even after these steps were instituted, as a water reconciliation has not been completed since the fourth quarter of 2011-12 to determine if any progress has been made. As a result, Village officials cannot verify the effectiveness of the steps taken to date nor can they determine if recordkeeping errors, irregularities or undetected leaks may exist. The Village has also suffered potential revenue losses or increased expenditures<sup>8</sup> due to the high amount of unaccounted-for water.

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<sup>6</sup> Also referred to as unmetered water

<sup>7</sup> A meter replacement project was initiated in May 2011 for the replacement of all Village water meters. The new meters contain a leak detection system, resulting in increased awareness of potential leaks, shortened response times to fix leaks, and an overall decrease in water loss. The Village has also surveyed all properties in the past year (2012) to ensure that all water use was metered, and found instances of individuals using water that was not being metered. These issues have been resolved and some customers are now being back-billed through agreements with the Village for the approximate unpaid water amounts.

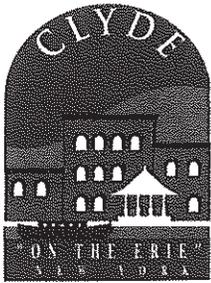
<sup>8</sup> Beyond those losses that officials are aware of due to theft or non-meter issues

## **Recommendations**

5. The Board should establish written policies required by law and sound business practices for Village operations, including an investment policy and policies related to the Village's financial operations.
6. The Board should establish IT policies related to acceptable use (including internet and e-mail), data backups, online banking, disaster recovery, equipment disposal/sanitization, and data breach notification.
7. The Board should review and update its policies annually.
8. The Board should ensure that water production and use reconciliations are performed timely, periodically review these reconciliations, investigate any significant deviations above the industry standard, and institute appropriate mitigating controls to prevent excessive amounts of unmetered water in the future.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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



# VILLAGE OF CLYDE, NEW YORK

6 SOUTH PARK STREET

CLYDE, NY 14433

Phone: (315) 923-3971

Fax: (315) 923-7805

Email: [mayor@clydeny.com](mailto:mayor@clydeny.com)

Web site: [www.clydeny.com](http://www.clydeny.com)

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Ann E Fenton

August 7, 2013

Office of the State Comptroller  
Division of Local Government and School Accountability  
Edward V. Grant, Jr., Chief Examiner  
State Office Building  
110 State Street  
Albany, New York 12236

Dear Mr. Grant:

Please allow this letter to serve as our official acknowledgement of the receipt and review of the Draft Audit Report for the period covering June 1, 2011 – January 11, 2013 as prepared by your office. The Board of Trustees of the Village of Clyde accepts the findings as contained in the audit report.

Based on your report, the Village was under budget four out of five years which by most standards is excellent. During those years the tax rate has decreased and remains stable. We fully understand that long term plans should be in place and are working diligently to document that information. The Village is currently working on various capital projects to be completed in the next five to ten years but have not appropriated any fund balance for said projects until the search for outside funding sources have been exhausted.

Two of those projects include replacing water and sanitary sewer lines along Route 31 which begins in the fall of 2013. NYS DOT road reconstruction begins immediately following the completion of our projects along that same stretch of Route 31. The Village needs to be prudent in having funds available for any unforeseen circumstances that may arise during these multi-million dollar projects.

We will be submitting a proposed Corrective Action Plan upon receipt of the Final Audit Plan in accordance to the 90 day requirement to include all recommended policy and procedures implemented to insure the strengthening of our current policy and procedures in these areas.

Sincerely,

Gerald Fremouw  
Mayor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

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

During the initial assessment, we interviewed Village officials, performed limited tests of transactions, and reviewed pertinent documents, including Board minutes and 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 scope by selecting those areas most at risk. We selected financial management (budgeting, fund balance, and long-term planning) and Board oversight of financial operations for further audit testing.

The objectives of our audit were to assess financial management and budgeting practices and the Board's oversight of the Village's financial operations. To achieve our objectives and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed appropriate Village officials regarding the Village's practices regarding financial operations, budgeting, fund balance/reserves, and long-term planning.
- We reviewed budget-to-actual reports printed from the financial software that were provided to the Board to determine frequency of reports and sufficiency of information provided. We performed a financial analysis of Village operations for the years 2008 to 2013. This review included an assessment of fund balance for each of the funds, the determination of an operating surplus (deficit), a budget-to-actual analysis, and a cash balance assessment.
- We compared budgeted revenues and expenditures to actual revenues and expenditures for 2011 to 2013, and determined whether appropriations were over expended, and if budget transfers were made.
- We reviewed pertinent documents, such as Village policies, Board minutes, and financial records and reports.
- We discussed IT controls with officials and verified their assertions through relevant documents and physical observation.
- We reviewed the Village's 2011-12 quarterly water reconciliations.
- We obtained and analyzed computerized data for the audit period using an audit command language software to identify and then 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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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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H. Todd Eames, Chief Examiner  
Office of the State Comptroller  
State Office Building - Suite 1702  
44 Hawley Street  
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