



Village of Deposit

Fiscal Monitoring and Selected Financial Operations

Report of Examination

Period Covered:

March 1, 2012 — March 18, 2013

2013M-205



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 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 Village Board 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 Deposit, entitled Fiscal Monitoring and 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 Deposit (Village) is located in the Town of Sanford in Broome County and the Town of Deposit in Delaware County and has a population of 1,663. The Village's 2013-14 budgeted appropriations totaled \$1.9 million, funded primarily with real property taxes, fire protection contracts, water sales, sewer rents, sales tax and State aid. The Village is governed by an elected five-member Village Board (Board) comprising the Mayor and four Trustees. The Board is the legislative body responsible for the general management and control of the Village's financial affairs. The Clerk-Treasurer is the chief fiscal officer and is responsible for preparing and maintaining the accounting records and reports. The Deputy Clerk-Treasurer (Deputy) inputs invoices to be paid and performs other duties to assist the Clerk-Treasurer.

Scope and Objective

The objective of our audit was to review the Village's financial condition and selected financial operations for the period March 1, 2012 through March 18, 2013. We extended our audit scope back to the 2008-09 fiscal year, and we updated our report for the 2012-13 financial information but have not determined the reliability of these figures reported, as Village officials filed this information after we were onsite. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of and monitor the Village's finances?
- Did the Board ensure that only authorized disbursements (including payroll) were made, all moneys received were properly deposited and all transactions were properly recorded and reported?

Audit Results

The Board did not effectively oversee and monitor the Village's financial operations. The Board did not ensure that it received complete and accurate reports from the Clerk-Treasurer. In fact, we found several material errors in the maintenance of the accounting records and related reports; for example, revenues per the annual update document were less than what were recorded in the accounting records, and the monthly reports did not include certain revenues. As such, the Board did not have accurate information with which to base its financial decisions and, ultimately, did not adopt reasonable budgets for the general, water and sewer funds. Unreasonable budgets resulted in operating deficits in each fund throughout the five years reviewed.

The Mayor and another Board member told us that their goal is to keep the real property tax levy steady because Village residents cannot afford to pay high taxes. However, the Board could not provide us

with evidence that it identified other revenue sources to finance operations, or attempted to control expenditures so that they remained in line with the real property tax levy and other revenues. Inaccurate budgeting and lack of monitoring have caused fund balance to decline in the general and sewer funds.

Specifically, the general fund's unexpended surplus fund balance¹ has declined from \$377,167 in fiscal year 2009 to \$91,327 in 2012. While the general fund reports unexpended surplus funds of \$256,374 for 2013, this amount is likely inaccurate because of questionable accounting records. While the water fund reported operating deficits from fiscal years 2011 through 2013, its unexpended surplus funds have increased from \$32,067 in 2009 to \$164,064 in 2013. This increase is largely the result of unexplained prior period adjustments, netting approximately \$82,000, during the five years reviewed. The sewer fund's unexpended surplus fund balance decreased significantly over the last five years, from \$323,913 in 2009 to \$17,963 in 2013, mainly due to significant operating deficits in 2011 and 2012 arising from sewer repair work. While the Village's funds currently have positive unexpended surplus fund balances, if the Board continues to accept inaccurate financial reports, base its decisions on unreliable information and not monitor results of operations, the Village could enter into fiscal stress.

The Board cannot be sure that only authorized disbursements (including payroll) were made, that all moneys received were properly deposited or that all transactions were properly recorded and reported. The Clerk-Treasurer and the Deputy perform most aspects of the cash receipt and disbursement functions without sufficient oversight or Board audit. There were 58 disbursements totaling more than \$217,000 made and payroll benefits totaling \$67,000 provided without formal Board approval. Because of these deficiencies, the risk is increased that Village funds could be misappropriated without detection or correction.

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. Except as indicated in Appendix A, Village officials generally agreed with our findings and indicated they plan to initiate corrective action. Appendix B includes our comment on an issue Village officials raised in their response.

¹ The Governmental Accounting 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).

Introduction

Background

The Village of Deposit (Village) is located in the Town of Sanford in Broome County and the Town of Deposit in Delaware County and has a population of 1,663. The Village offers a variety of services to its residents, including general administration, police, fire protection, street lighting, water, sewer and recreation services. The Village's 2013-14 budgeted appropriations totaled \$1.9 million, funded primarily with real property taxes, fire protection contracts, water sales, sewer rents, sales tax and State aid.

The Village is governed by an elected five-member Village Board (Board) comprising the Mayor and four Trustees. The Board is the legislative body responsible for the general management and control of the Village's financial affairs. The Mayor is the Village's chief executive officer. The Clerk-Treasurer is the chief fiscal officer and is responsible for the accounting records and reports, including filing the annual update document (AUD) with the Office of the State Comptroller (OSC). The Deputy Clerk-Treasurer (Deputy) assists the Clerk-Treasurer by inputting invoices to be paid, processing payroll and preparing bank reconciliations. The Board is responsible for overall fiscal oversight, which includes auditing, or causing an audit of, the Clerk-Treasurer's AUD and supporting records.

Objective

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

- Did the Board provide adequate oversight of and monitor the Village's finances?
- Did the Board ensure that only authorized disbursements (including payroll) were made, all moneys received were properly deposited and all transactions were properly recorded and reported?

Scope and Methodology

We interviewed appropriate Village officials, examined financial records and reviewed the Village's procedures² for the period March 1, 2012 through March 18, 2013. To analyze the Village's historical financial condition, we extended our audit scope back to the 2008-09 fiscal year. Additionally, the AUD for the 2012-13 fiscal year was not filed until May 2013, after the end of our audit fieldwork; we updated

² Our audit included all moneys received by the Clerk-Treasurer's office, other than water and sewer payments.

our report to include this information but have not determined the reliability of the figures reported.

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 is included in Appendix C 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. Except as indicated in Appendix A, Village officials generally agreed with our findings and indicated they plan to initiate corrective action. Appendix B includes our comment on an issue Village officials raised in their response.

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-Treasurer's office.

Fiscal Monitoring

The Board is responsible for monitoring the Village's fiscal operations. Such monitoring includes ensuring that it receives complete and accurate financial reports so that it can make informed financial decisions and adopt realistic budgets. The Clerk-Treasurer is responsible for accurately accounting for and reporting the detail of all revenues, expenditures and related fund balance. The Board must audit, or cause to be audited, the Clerk-Treasurer's annual financial report and supporting records.

The Board did not effectively oversee and monitor the Village's financial operations. The Board did not ensure that it received complete and accurate reports from the Clerk-Treasurer. In fact, we found several material errors in the maintenance of the accounting records and related reports; for example, revenues per the AUD were less than what were recorded in the accounting records, and the monthly reports did not include certain revenues. As such, the Board did not have accurate information with which to base its financial decisions and, ultimately, did not adopt reasonable budgets for the general, water and sewer funds. Inaccurate budgeting and lack of monitoring have caused fund balance to decline in the general and sewer funds. While the Village's funds currently have positive unexpended surplus fund balances,³ if the Board continues to accept inaccurate financial reports, base its decisions on unreliable information and not monitor results of operations, the Village could enter into fiscal stress.

Financial Records and Reports

The Clerk-Treasurer is responsible for filing the AUD with OSC. The AUD is a summary of the Village's annual financial information and should agree with the accounting records. Further, the Clerk-Treasurer is responsible for providing the Board with complete and accurate monthly reports comparing the budget with actual results of operations. These reports allow the Board to monitor the Village's operations and adjust the budget as necessary.

³ The Governmental Accounting 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).

AUD – We found numerous discrepancies between the accounting records and the AUD. For fiscal year 2011-12, the reported revenues on the AUD were less than the amounts in the accounting records by \$58,000 in the general fund and \$38,000 in the sewer fund. Additionally, the reported expenditures on the AUD were more than recorded in the accounting records – by \$181,000 for the general fund and \$31,000 for the sewer fund – for that same fiscal year.

The Clerk-Treasurer also improperly reported unpaid real property tax and interest revenues on the fiscal year 2011-12 AUD and reported \$0 for an allowance for uncollectible real property taxes on the 2012-13 AUD, even though the Village is responsible for enforcing its own real property tax collection.⁴ Both of these recording errors would impact the amount of unexpended surplus funds. The Clerk-Treasurer indicated that some of the reporting differences were related to confusion regarding delinquent taxes and not maintaining all bank accounts in the financial accounting software.

Furthermore, in the general fund, the reported unexpended surplus funds on the AUD were \$166,584 more than the accounting records for fiscal year 2011-12. The majority of this difference related to a cash account that was not recorded in the accounting records. Also, the AUD fund balances were \$5,437 less in the water fund and \$25,668 more in the sewer fund than were reported in the financial accounting software for the fiscal year ended 2011-12. Additionally, in each of the funds over the past five years, the amount of fund balance appropriated to fund the next year’s budget was not accurately recorded in the AUD as restricted. Moreover, the last five AUDs contained unsupported prior period adjustments to all funds, as indicated in Table 1. Substantial unexplained prior period adjustments indicate a serious recordkeeping issue and hinder the Board from knowing the Village’s actual financial condition.

Table 1: Prior Period Adjustments to Fund Balance

Fund	February 28, 2009	February 28, 2010	February 28, 2011	February 29, 2012	February 28, 2013 ^a	Total
General Fund	(\$30,554)	(\$138,969)	(\$16,459)	\$24,259	\$202,234	\$40,511
Water Fund	(\$66,644)	\$6,502	\$143,473	(\$1,338)	\$0	\$81,993
Sewer Fund	(\$14,854)	(\$42,942)	(\$6,561)	(\$194)	\$0	(\$64,551)
Capital Project Fund	(\$106,370)	(\$89,850)	\$0	(\$210,983)	\$0	(\$407,203)
Special Grant Fund	(\$350,000)	\$0	\$0	\$0	\$0	(\$350,000)
Total	(\$568,422)	(\$265,259)	\$120,453	(\$188,256)	\$202,234	(\$699,250)

^a Because the 2012-13 AUD was not filed until May 2013, after the end of our audit fieldwork, we have not determined the reliability of these figures reported.

⁴ Because the 2012-13 AUD was not filed until May 2013, after the end of our audit fieldwork, we have not determined the reliability of these figures reported.

Interim Reports – Although the Clerk-Treasurer submitted monthly budget versus actual reports to the Board, they were incomplete and did not accurately portray the Village’s financial condition. For example, these reports did not include revenues and expenditures for two accounts and did not agree with amounts reported on the AUD.

Because the Clerk-Treasurer did not maintain complete and accurate financial records, and the Board did not require that she do so, the Board did not have reliable information with which to base its decisions. Inaccurate information impaired the Board’s ability to adopt realistic budgets.

Budget Preparation and Monitoring

It is essential that the Board adopts reasonable, structurally balanced budgets for all Village operating funds that provide recurring revenues to finance recurring expenditures based on accurate and timely information. Also, effective management includes monitoring budgets during the course of the year and making any budgetary amendments that become necessary in a timely manner. The approval of any budgetary amendments should be formally documented in the Board’s minutes.

The Board did not adopt realistic budgets. For the five-year period ending February 28, 2013, total general fund expenditures of \$5.95 million exceeded appropriations of \$5.21 million by 14 percent, water fund expenditures of \$1.6 million exceeded appropriations of \$1.47 million by 9 percent, and sewer fund expenditures of \$2.91 million exceeded appropriations of \$2.61 million by 11 percent. For the same five-year period, total general fund revenues of \$5.81 million exceeded budgeted revenues of \$5.21 million by 11 percent, water fund revenues of \$1.65 million exceeded budgeted revenues of \$1.47 million by 12 percent, and sewer fund revenues of \$2.76 million exceeded budgeted revenues of \$2.61 million by 6 percent, as indicated in Table 2.

	General Fund	Water Fund	Sewer Fund
Estimated Revenues	\$5,210,000	\$1,470,000	\$2,610,000
Actual Revenues	\$5,810,000	\$1,650,000	\$2,760,000
Difference	\$600,000	\$180,000	\$150,000
Appropriations	\$5,210,000	\$1,470,000	\$2,610,000
Actual Expenditures	\$5,950,000	\$1,600,000	\$2,910,000
Difference	(\$740,000)	(\$130,000)	(\$300,000)

While the revenues generated over the budgeted estimates did offset some of the expenditures that were in excess of estimates in the general and sewer funds, the funds still each ended the five-year period with net operating deficits between \$140,000 and \$150,000. Additionally, although the water fund’s net results were positive, it incurred operating deficits throughout the five-year period.

The Mayor and another Board member told us that their goal is to keep the real property tax levy steady because Village residents cannot afford to pay high taxes. However, the Board could not provide us with evidence that it identified other revenue sources to finance operations or attempted to control expenditures so that they remained in line with the real property tax levy and other revenues.

The Board did not present us with any evidence of its overseeing, or recognizing the actual results of, Village operations as compared to its adopted budgets. In fact, while the Board should monitor the budget throughout the year and make necessary transfers before funds become over-expended, the Board did not make budget transfers until the year-end closing of the Village’s accounting records. Further, while Board members and the Clerk-Treasurer told us the Board did discuss the budget transfers, these transfers were not recorded in the minutes. Because the Board did not monitor the budget throughout the year, it was not truly aware of the Village’s financial position.

Fund Balance Impact – The Board’s inability to identify the Village’s budget variances and then either amend the adopted budgets or address any operational issues that may have caused the variances allowed expenditures to exceed revenues for each of the operating funds during various fiscal years. Ultimately, this caused unexpended surplus funds to decline in the general and sewer funds, as outlined in Table 3.⁵

Fund	February 28, 2009	February 28, 2010	February 28, 2011	February 29, 2012	February 28, 2013
General Fund	\$377,167	(\$119,409)	\$77,609	\$91,327	\$256,374
Water Fund	\$32,067	\$76,308	\$211,124	\$194,057	\$164,064
Sewer Fund	\$323,913	\$238,064	\$91,452	\$17,053	\$17,963

^a Data obtained from the Village’s AUD (as adjusted for amounts appropriated to next years’ budgets).

From fiscal years 2009 through 2012, the general fund’s total unexpended surplus fund balance decreased from \$377,167 to \$91,327. Further, while the Village reported that it ended fiscal

⁵ Revenue and expenditure figures in this table are from the Village’s AUD. These figures do not reconcile with the Village’s accounting records (see section of report entitled AUD).

year 2012-13 with a \$42,584 operating surplus and \$256,374 in unexpended surplus funds, we question whether these amounts are accurate. The Village's 2013 reports contain questionable items, including no allowance for uncollectible real property taxes, even though the Village is responsible for enforcing its own real property tax collection. In fact, the Village reported that it had more than \$230,000 in outstanding real property taxes as of February 28, 2013. If the Village does not collect this entire amount, its fund balance will be negatively impacted.

While the water fund reported operating deficits from fiscal years 2011 through 2013, its unexpended surplus funds have increased from \$32,067 in 2009 to \$164,064 in 2013. This increase is largely the result of unexplained prior period adjustments, netting approximately \$82,000, during the five years reviewed. Without accurate records, Village officials cannot effectively monitor this fund. Recordkeeping issues are discussed further in the next section entitled "Cash Disbursements and Receipts."

The sewer fund's unexpended surplus fund balance decreased significantly over the last five years, from \$323,913 in 2009 to \$17,963 in 2013, mainly due to significant operating deficits in 2011 and 2012. These deficits occurred because additional expenditures arose due to added work on the sewer system, such as an \$80,000 additional contractual payment to a sewer engineer. The Board did not plan for these improvements or make any necessary budget adjustments to ensure that the sewer fund had sufficient revenues to fund these additional expenditures.

When revenues generated are not sufficient to finance Village operations, those expenditures will be financed from each fund's unexpended surplus funds. Considering that unexpended surplus funds are finite, the use of this money also has a practical limit. As such, to preserve the financial condition of the Village's operating funds, it is important that the Board ensures it receives accurate financial information, monitors results of operations and adjusts the budgets as necessary. While the Village's operating funds currently have positive fund balances, if the funds must rely on unexpended surplus funds to finance operations, the Village's financial condition could be negatively impacted.

Annual Audit

Village Law requires the Board to annually audit, or have a Village officer, employee or an independent public accountant audit, the financial records of the Clerk-Treasurer. This annual audit provides an independent verification that transactions have been properly recorded and that cash has been accounted for properly. It also provides the

Board with assurance that the financial records and reports contain reliable information on which to base financial decisions.

The Board did not audit, or cause to be audited, the annual financial report or records of the Clerk-Treasurer. Had the Board performed such an audit, it would have been alerted to the fact that the Clerk-Treasurer did not maintain accurate and complete records and account for the Village's cash receipts and disbursements.

Recommendations

1. The Board should require the Clerk-Treasurer to attend training or replace the Clerk-Treasurer so that reliable and timely records are available to manage Village finances.
2. The Clerk-Treasurer should prepare and provide the Board with complete and accurate financial records and reports, including monthly budget-to-actual comparisons and cash balances.
3. The Board should adopt reasonable budgets based on previous years' actual activity.
4. The Board should monitor the budget-to-actual results throughout the year and amend the budget prior to exceeding appropriations or not fully receiving expected revenues.
5. The Board should approve and make budget transfers in a timely manner.
6. The Board should contract with an independent public accountant to perform an annual audit of the Clerk-Treasurer's records.
7. Village officials should consider attending local government training on fiscal oversight and accounting.

Cash Disbursements and Receipts

The Board is responsible for the general management and control of the Village's finances and operations and the protection of Village assets. These responsibilities include designing internal controls to provide oversight, especially where one individual performs all of certain key functions. The Board also must audit and approve all payments, including payroll benefits, to ensure that they are valid Village expenditures. Additionally, the Board must ensure that all moneys received are properly accounted for, which would include timely recording and depositing.

The Board cannot be sure that only authorized disbursements (including payroll) were made, that all moneys received were properly deposited or that all transactions were properly recorded and reported. The Clerk-Treasurer and the Deputy perform most aspects of the cash receipt and disbursement functions without independent oversight. There were 58 disbursements totaling more than \$217,000 made and payroll benefits provided without Board approval. Because of these deficiencies, the risk is increased that Village funds could be misappropriated without detection or correction.

Cash Disbursements – The Clerk-Treasurer has the ability to print and sign checks without oversight. Although the Mayor approves the invoice to be put on the abstract and the Board approves claims listed on the abstract for payment each month, no one verifies that only checks approved by the Board are issued. In addition, during our audit period, the Village's financial accounting software was outdated and allowed for the deletion of checks from the records with no audit trail, which increased the risk that Village funds could be misappropriated without detection or correction. As of April 2013, Village officials upgraded their financial accounting software, which corrected this weakness.

We compared Board-approved abstracts to cash disbursement journals for three months⁶ and identified 47 disbursements totaling \$194,000 that were not audited. We reviewed the supporting invoices for 15 of these 47 disbursements totaling \$161,000 and determined that all 15 were for appropriate Village purposes; however, 14 disbursements totaling \$112,670 should have been audited. Furthermore, we reviewed all disbursements for a four-month period⁷ and found that 11 disbursements totaling \$23,000, which required Board audit,

⁶ See Appendix C, Audit Methodology and Standards, for details on our sample selection.

⁷ *ibid*

were not audited; however, these disbursements were for appropriate Village purposes.

When disbursements are made without Board audit and approval, the risk is increased that Village funds could be expended for inappropriate purposes.

Payroll – The Deputy is responsible for entering in new employees, pay rates and hours worked, along with preparing bank reconciliations. The Clerk-Treasurer then reviews the Deputy’s entries; however, no one verifies that payments made and benefits provided are approved by the Board. We determined compensation paid to three key officials was accurate, with minimal differences, by comparing actual amounts paid to a salary worksheet the Clerk-Treasurer prepared during budget preparation. Although the Village has a salary worksheet, which the Mayor stated that he has seen, there is no documentation that the salaries paid are Board-approved because the Board does not attach an approved salary schedule to its minutes. Additionally, a Health Savings Account (HSA) benefit is being provided to full-time employees, which is not approved in a Board policy or in the Board minutes. Board members told us they had intended to provide these HSA benefits but had failed to formally document this in the Village’s personnel policy. This benefit cost the Village \$67,599 for the 2012-13 fiscal year.

Cash Receipts – Both the Clerk-Treasurer and the Deputy have the ability to collect, record and deposit moneys collected, including real property taxes and other various revenues. We tested 202 receipts totaling \$1,218,320 and found minimal discrepancies. However, because they have the ability to control these transactions with minimal oversight, the risk is increased that cash receipts could be lost or misappropriated without detection or correction.

These errors occurred without detection because the Clerk-Treasurer and the Deputy perform all of the financial duties without any independent oversight. Additionally, the Mayor and Clerk-Treasurer indicated they could not afford to hire someone else to enhance segregation of duties. Furthermore, the Clerk-Treasurer misunderstood which claims needed to be presented for audit, and the Board did not ensure that all claims paid were listed on an abstract.

Village officials’ failure to provide oversight over disbursements – including payroll – and cash receipts increases the risk that employee errors and irregularities may occur and not be detected and corrected. Further, Village moneys could be wasted. For example, payments could be made that are not for proper Village purposes, and receipts could be collected and not properly deposited.

Recommendations

8. The Board should provide adequate fiscal oversight when one person performs all aspects of the cash receipts and disbursements duties.
9. The Mayor should counter-sign all Village checks to verify that disbursements are being made for valid Village purposes.
10. The Board should establish procedures to ensure it reviews, audits and approves all claims against the Village.
11. The Board should ensure that all salaries paid and benefits provided are in accordance with Board-approved amounts and that such approval is documented.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

VILLAGE OF DEPOSIT

146 FRONT STREET
DEPOSIT, NEW YORK 13754-1198
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Fax (607) 467-2465

November 21, 2013

H. Todd Eames, Chief Examiner
Binghamton Regional Office
State Office Building, Suite 1702
44 Hawley St.
Binghamton, NY 13901-4417

Dear Mr. Eames:

On behalf of the Village of Deposit Village Board of Trustees, I would like to thank you and your staff for the time, dedication and professionalism in conducting our audit. Your staff kept the Village personnel informed of each step in the audit process and was extremely helpful, interesting, informative and educational. While we feel your audit was fair and accurate, we feel the tone was severe. The Village had taken several corrective actions prior to the completion of the audit and will document those in our CAP. We would have appreciated a mention of these changes made including a fairly successful attempt at back tax collection enacted during the audit. The Village further corrected accounting practices frowned on by the state but encouraged by an independent auditor hired during the WWTP upgrade.

See
Note 1
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There were many contributing factors to the findings in our audit. The closing of Norbord, our biggest water customer, significantly impacted revenues in the water fund. Our 4 million dollar WWTP upgrade in 2006 quickly became a 9 million dollar project with the 2006 historic flooding event. The upgrade and repairs continued into the 2012-2013 fiscal years. The Village board strives to keep the tax rate lower as the residents already pay town and county taxes as well as school taxes. Therefore fund balance was used in Water, Sewer and General funds with the intent to benefit taxpayers and the needs of the community with little or no financial impact. However, knowing that fund balance is a limited resource, the Village has adopted modest increases in water and sewer rates each year.

WEST BRANCH OF THE DELAWARE RIVER WORLD CLASS TROUT STREAM

THE VILLAGE OF DEPOSIT IS AN EQUAL OPPORTUNITY EMPLOYER. Discrimination is prohibited by Federal Law. Complaints of discrimination may be filed with USDA, Director of Civil Rights, 1400 Independence Ave., SW, Washington, 20250-9410 or call (800) 759-3272 or TDD: 1-800-662-1220

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Village Of Deposit
Audit Response

The Village has always strived to adopt realistic budgets and to keep taxes lower. We realize that taxes will have to increase, and are building in the next fiscal year, a budget with this in mind. That being said, we feel that the elected officials were provided the proper reports to make sound financial decisions just not in acceptable municipal accounting format.

We would like to mention that it was stated in the audit that the Village was currently operating with positive fund balances. There were extreme circumstances in prior years that helped contribute to operating deficits. I do not feel the Deposit Village government received a fair analysis considering these circumstances.

With a better understanding of the budgeting process, fiscal oversight and monitoring, we will be taking the appropriate actions to correct the audits findings and keep the Village's financial condition at its best in these very difficult economic times. A corrective action plan will be forthcoming.

Sincerely,

John O'Connor
Mayor, Village of Deposit

APPENDIX B

OSC COMMENT ON THE VILLAGE'S RESPONSE

Note 1

While we commend Village officials for taking corrective action on these issues, they formally implemented such actions after the end of our fieldwork. The corrective actions explained to us at the exit conference were appropriate; however, since they were not in place during our fieldwork, we could not verify their effectiveness. Therefore, we did not include them in our audit report.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Village officials, tested selected records and examined pertinent documents for the period March 1, 2012 through March 18, 2013. To analyze the Village's historical financial condition, we extended our audit scope back to the 2008-09 fiscal year. Additionally, the AUD for the 2012-13 fiscal year was not filed until May 2013, after the end of our audit fieldwork. We updated our report for this information but have not determined the reliability of the figures reported. Our examination included the following:

- We interviewed the Mayor, four Trustees and various Village employees to gain an understanding of available accounting records and controls relating to our audit objective.
- We selected 13 revenue accounts and 20 expenditure accounts, along with cash accounts, in the general, water and sewer funds to determine if amounts reported on the 2011-12 AUD were supported by the Clerk-Treasurer's accounting records.
- We compared the Village's budgeted revenues and expenditures for the 2008-09 through 2012-13 fiscal years to the actual results of operations.
- We reviewed the Village's results of operations during the previous five years.
- We reviewed the version of the Village's financial accounting software to determine the last time the software had been updated and then consulted with the vendor to determine the most recent version.
- We reviewed disbursements and Board-approved abstracts for a judgmental selection of the months of April 2012, July 2012 and January 2013 to determine if the Board audited all required disbursements and if these expenditures were properly recorded. We selected our sample by choosing months that were spread throughout the year.
- We reviewed all bank statements for the entire audit period for payments made to Village employees or officials to determine if those payments were for legitimate Village expenditures and Board-approved.
- From August 2012 through November 2012, we identified checks on warrants that were not reviewed by the Board to determine if those expenditures were appropriate Village expenditures. We also identified check gaps, by reviewing bank statements, to determine if the checks were properly voided or listed as outstanding checks. We judgmentally selected these months to review to have a sample of months that were spread throughout the year.
- We reviewed the bank reconciliations for February 2013 to determine if the bank accounts were reconciled properly.

- For a three-month period (July 2012 through September 2012), we examined all bank statements and identified any non-check cash withdrawals and electronic transfers. We reviewed 19 withdrawals and 10 electronic transfers to determine if they were appropriate.
- We reviewed the salaries of three key employees to verify if the amounts of salaries paid were Board-approved.
- We reviewed Board-adopted policies and Board minutes to determine if employee benefits were formally approved.
- We selected eight key Village employees and officials to determine if their real property tax bills were properly paid, recorded and deposited.
- We randomly selected 114 real property tax bills to determine if the corresponding receipts were being appropriately recorded and, if applicable, late fees and penalties were charged.
- We obtained the Village's tax warrant from Broome and Delaware County and relevy request from Broome County for 2011-12 and 2012-13. We discussed with Broome County officials the settlement process and inquired if there have been problems. We verified that the levy amount provided to the County matched the levy amount approved by the Board. We also determined if the Clerk-Treasurer properly reported the 2011-12 real property taxes.
- We reviewed State overhead payment amounts paid to the Village between March 1, 2012 through March 18, 2013 to determine if these payments were recorded in the accounting system and deposited.
- We compared OSC-calculated fund balances to those reported by the Village on the AUD for the year ended February 29, 2012.
- We reviewed AUD information for the last five fiscal years and identified all adjustments to fund balance.

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 D

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