



Village of Hoosick Falls

Internal Controls Over Selected Operations

Report of Examination

Period Covered:

June 1, 2010 — May 31, 2012

2013M-1



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 Village costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Village of Hoosick Falls, entitled Internal Controls Over Selected 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 Village 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 Hoosick Falls (Village) is located in the Town of Hoosick in Rensselaer County and has a population of approximately 3,500 residents. The Village is governed by a Village Board (Board), which comprises a Mayor and six Trustees. The Board is responsible for the general management and control of the Village's financial affairs. The Mayor is the chief executive officer, and the Treasurer is the chief fiscal officer. The Village's budgeted appropriations for 2012-13 are approximately \$3.2 million, which are funded primarily with user charges, real property taxes, State aid, and sales taxes.

Scope and Objective

The objective of our audit was to review the Village's financial and information technology (IT) operations for the period June 1, 2010, to May 31, 2012. We extended our review of financial report filing back to 2008 and to October 5, 2012. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of the duties performed by the Treasurer?
- Are internal controls over fuel inventory appropriately designed and operating effectively to safeguard Village assets?
- Are internal controls over IT appropriately designed to safeguard Village assets?

Audit Results

The Board has not adopted policies establishing responsibilities and duties for the Treasurer for handling cash and maintaining accounting records. As a result, the Treasurer filed the Village's annual financial report an average of 221 days past the due date for the fiscal years ending in 2008 through 2011. In addition, the Board has not implemented compensating controls to address the lack of segregation of duties performed by the Treasurer. The Treasurer maintains the accounting records, performs bank account reconciliations, receives cash, and prepares and makes deposits. She also prepares and signs checks. Nine water, sewer, and trash bills that were paid late were not correctly assessed late payment penalties, including one that was six months late that did not have a required \$965 penalty assessed. Also, four collections totaling \$817 were not deposited in a timely manner, including one that was 14 days late.

Further, although the Treasurer performs all aspects of processing payroll including adding and deleting employees, recording hours worked, and signing checks, Village officials do not review payroll in a timely manner, and there is no certification of payroll prior to printing checks. In addition, there was

no evidence that the Board conducted an audit of claims, and the Board did not audit the Treasurer's reports and records during our audit period. As a result, there is an increased risk that inappropriate payments or irregularities could occur, and the ability of the Board and public to effectively monitor the Village's financial operations is diminished.

Internal controls over fuel were not appropriately designed and operating effectively. From June 2010 to May 2012, the Village purchased \$84,000 in gasoline and diesel fuel. Although fuel consumption records were kept for specific vehicles, there were no perpetual inventory records or physical inventories completed. As a result, there was no assurance that all fuel purchased was used for legitimate Village purposes.

Internal controls over IT are not appropriately designed. Three employees have access to all financial software functions enabling them to record and change information and prepare and print checks. Despite this poor segregation of duties, there is no procedure to periodically review system activity. In addition, the Board has not developed a formal disaster recovery plan. As a result, the Village is at risk of unauthorized access to sensitive data or the loss of sensitive information, manipulation of records, and of disruption of time-sensitive operations.

Comments of Local Officials

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

Introduction

Background

The Village of Hoosick Falls (Village) is located in the Town of Hoosick in Rensselaer County and has a population of approximately 3,500 residents. The Village is governed by a Village Board (Board), which comprises a Mayor and six Trustees. The Board is responsible for the general management and control of the Village's financial affairs, including establishing internal controls over financial operations. The Mayor is the chief executive officer. The Treasurer, as chief fiscal officer, is responsible for receiving, disbursing, and maintaining custody of Village moneys, maintaining accounting records, and preparing monthly and annual financial reports.

The Village provides various services to its residents, including water and sewer services, highway and public facilities maintenance, police protection, solid waste disposal, street lighting, and safety inspections. The Village's budgeted appropriations for 2012-13 are approximately \$3.2 million, which are funded primarily with user charges, real property taxes, State aid, and sales taxes.

Objective

The objective of our audit was to review the Village's financial and information technology (IT) operations. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of the duties performed by the Treasurer?
- Are internal controls over fuel inventory appropriately designed and operating effectively to safeguard Village assets?
- Are internal controls over IT appropriately designed to safeguard Village assets?

Scope and Methodology

We examined the Treasurer's duties, control over fuel inventory and IT controls of the Village for the period June 1, 2010, to May 31, 2012. We extended our review of financial report filing back to 2008 and forward to October 5, 2012. Our audit disclosed additional areas in need of improvement concerning some IT controls. Because of the sensitivity of some of this information, certain vulnerabilities are not discussed in this report but have been communicated confidentially to Village officials so they could take corrective action.

**Comments of
Local Officials and
Corrective Action**

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

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials agreed with our recommendations and indicated they have already initiated 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.

Treasurer's Duties

The Treasurer, as the Village's chief fiscal officer, is responsible for the Village's financial duties including receiving and disbursing moneys, maintaining the accounting records, and reconciling the accounting records to the bank statements on a timely basis. Furthermore, the Treasurer is required to file the Village's annual financial report with the Office of the State Comptroller within 60 days of the close of the fiscal year.

To adequately safeguard Village moneys, the Board must establish policies to ensure all receipts and disbursements are properly authorized and documented. The Board should also establish compensating controls when duties performed by Village staff members cannot be segregated, require disbursements to be adequately documented, and ensure that claims are properly audited. Furthermore, the Board must annually audit the Treasurer's records to ensure Village moneys are properly accounted for.

The Board has not adopted policies for the responsibilities of the Treasurer. As a result, the Treasurer has consistently filed the Village's annual financial report late. In addition, the Board has not implemented compensating controls such as requiring an independent review of bank statements or journal entries to address the lack of segregation of duties for the Treasurer. The Treasurer's duties include maintaining the accounting records, performing bank reconciliations, receiving cash, preparing and making deposits, and signing checks. Lastly, the Board did not annually audit the Treasurer's records. These deficiencies increase the risk of inappropriate payments or irregularities occurring and diminish the ability of the Board and public to monitor the Village's financial operations.

Policies and Procedures

Written policies are a key component of an organization's internal control environment, as they formally establish and communicate to staff members the manner in which to conduct day-to-day operations of the organization. Written policies can also provide the Board with an effective means of ensuring that financial objectives are met. It is important for the Board to develop written policies for finance-related areas.¹ Village officials are also responsible for developing written procedures to implement the Board-adopted policies.

¹ These may include policies for cash receipts and disbursements, payroll and personal services, claims processing, and the maintenance of financial records.

The Board has not adopted policies establishing responsibilities and duties for the Treasurer in relation to handling cash and maintaining accounting records. Without policies and procedures, Village officials and employees do not have clear guidelines for performing their duties, and there is an increased risk that errors and irregularities may occur. This lack of policies may have contributed to the deficiencies discussed in this report including the failure to file financial reports in a timely manner, collect all late penalties due, and deposit all cash receipts in a timely manner.

Annual Financial Report

The Treasurer is required to prepare and file an annual financial report (AFR) with the Office of the State Comptroller (OSC) within 60 days after the close of the fiscal year, although an extension can be requested permitting the Treasurer to have an additional 60 days to file the report. The AFR is an important fiscal tool that provides the Board, taxpayers and other interested parties with the necessary information to monitor the Village's financial operations.

The Treasurer did not file the Village's AFR in a timely manner for any of the fiscal years ending in 2008 through 2012. Furthermore, although the Treasurer could have requested an extension, she did not do so for any of these years. The Treasurer filed the AFR an average of 221 days past the due date for the fiscal years ending in 2008 through 2011. For example, the Treasurer filed the Village's AFR for the fiscal year ending May 31, 2010, on March 15, 2011, 228 days after it was due, and the Treasurer filed the AFR for the fiscal year ending May 31, 2011, on February 16, 2012, 201 days after it was due. Additionally, as of October 5, 2012, the report for the 2012 fiscal year had not been filed, and no request for an extension was submitted by the Treasurer.

The failure to file a timely AFR with OSC denies the Board and the public access to a primary tool for monitoring the Village's financial affairs.

Segregation of Duties

The concentration of key duties related to receiving and disbursing cash, maintaining the accounting records, and completing bank reconciliations with one individual significantly increases the risk that irregularities might occur and go undetected. Where it is not possible to segregate duties, the Board must institute compensating controls, such as requiring multiple signatures on checks; periodically reviewing the records maintained by the Treasurer; reviewing bank statements, reconciliations, or journal entries; performing timely and adequate reviews of each payroll prior to the Treasurer preparing pay checks; and performing a thorough claims audit and approving the claims before the Treasurer processes the claims for payment.

The Board has not implemented compensating controls to address the lack of segregation of duties performed by the Treasurer. The

Treasurer's duties include maintaining the accounting records, performing bank account reconciliations, receiving cash, and preparing and making deposits. In addition, she prepares and signs the checks. Due to the lack of segregation of duties, we tested cash receipts and disbursements in the following areas:

- **Billed Receivables** — The Treasurer's duties for billing and collecting water, sewer, and trash collection services are not adequately segregated. She has the ability to receive, record, and deposit cash collections. She also prepares the bills, makes journal entries, and prepares bank reconciliations without any Board oversight. The Board could have formally authorized the master list of water and sewer bills and provided for an independent review of journal entries, daily receipts, deposit records, or bank reconciliations.

We tested 50 water, sewer, and trash receipts totaling \$74,926 and 10 tax receipts for which penalties were owed for late payments totaling \$7,429. All collections agreed to the amounts billed and were deposited intact. However, nine water, sewer, and trash bills that were paid late were not correctly assessed late payment penalties, including one collection that was received six months late that did not have the required \$965 penalty assessed. Also, four collections (three water, sewer, and trash, and one real estate tax and related penalty) totaling \$817 were not deposited in a timely manner, including one that was 14 days late.²

- **Payroll** — The Treasurer performs all aspects of the payroll process. Specifically, the Treasurer adds and deletes employees from the payroll system, makes payroll changes, receives timesheets, records the hours worked by employees, prints and signs payroll checks, and distributes the checks to the employees. We were informed that the Deputy Mayor reviews time sheets; however, it is only done monthly even though the payroll period for the Village employees is bi-weekly. Furthermore, the payroll is not certified by the Deputy Mayor or Mayor prior to disbursement of the pay checks. As such, Village officials are not ensuring employees are paid at the proper rates and for the correct number of hours worked. We tested gross payrolls for 10 employees totaling \$26,309 and found all employees were paid correctly and that their payments were adequately supported and authorized. Although our testing did not find any irregularities, without

² Village Law requires that all moneys received by the Treasurer be deposited within 10 days of receipt.

proper controls and oversight there is an increased risk of unauthorized or inappropriate payments.

- **Claims Processing** — To ensure that disbursements are for valid expenses and for goods or services that have actually been received, claims must be audited and approved by the Board prior to the Treasurer making payment. Audited and approved claims must be listed on abstracts that are certified by the Board. The Treasurer must issue checks only after receiving the certified warrants. We found that the Village was not adequately auditing claims prior to the Treasurer making payment on the claims. The Treasurer prepared the claims and provided the abstract of claims to the Mayor and Deputy Mayor. The Mayor signed the claims, and the Treasurer would then make payment on the claims. There was no indication that the claims had been audited by the Board, or any indication in the minutes that they had been approved by the Board. We tested 20 claims from each year of our scope totaling \$121,405. We found all 20 were adequately supported and for legitimate Village purposes. Although our test did not find any irregularities, when the Board does not audit and approve claims prior to payment, the Village is at risk of the Treasurer making incorrect or inappropriate payments.

The lack of segregation of duties is understandable considering the Treasurer is the only person performing the duties of her office. However, the lack of compensating controls increases the risk that errors and irregularities could occur and remain undetected and uncorrected.

Annual Audit

Village Law requires that the Board annually audit the Treasurer's reports and supporting records, or cause them to be audited by a Village officer or employee or certified public accountant. This annual accounting provides an added measure of assurance that public moneys are handled properly (e.g., deposited in a timely manner, accurately reported, and accounted for) and that the financial records and reports contain reliable information on which to base management decisions, and gives the Board the opportunity to monitor the Treasurer's fiscal procedures. The annual audit is especially important when there is limited or no segregation of duties. Indications that an audit was performed should be entered into the Board's minutes.

The Board did not audit, or cause to be audited, the Treasurer's reports and supporting records during our audit period. The lack of an annual audit diminishes the Board's ability to effectively monitor the Village's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected.

Recommendations

1. The Board should adopt policies establishing responsibilities and duties for the Treasurer for handling cash and maintaining accounting records.
2. The Treasurer should prepare and file the Village's annual financial report with the OSC in a timely manner.
3. The Board should implement compensating controls to reduce the risks associated with the lack of segregation of duties performed by the Treasurer. The controls should include periodically reviewing the records maintained by the Treasurer; reviewing bank statements, reconciliations or journal entries; performing timely and adequate reviews and a certification of each payroll prior to the Treasurer preparing pay checks; and performing a thorough claims audit and approving claims before the Treasurer processes them for payment.
4. The Treasurer should ensure all penalties for billed receivables are correctly assessed and that all collections are deposited in a timely manner.
5. The Board should conduct an audit, or arrange for an audit, of the Treasurer's reports and supporting records on an annual basis.

Fuel Inventory

It is important that Village officials ensure that the Village's fuel supplies are properly accounted for and adequately safeguarded to protect them from waste and abuse. A good system of internal controls includes perpetual inventory records that identify quantities delivered, consumed, and on hand. Periodic reconciliations of fuel inventory records to physical fuel inventories and reviews of mileage records for Village vehicles must be performed to help identify fuel loss due to leaks or unauthorized use. Material discrepancies should be promptly investigated and resolved.

From June 2010 to May 2012, the Village purchased 7,400 gallons of diesel fuel and 20,400 gallons of gasoline at a total cost of \$84,000. Although the Highway Superintendent (Superintendent) maintained fuel logs showing quantities of fuel dispensed, he did not maintain perpetual inventory records that showed the amount of beginning inventory, fuel purchased, fuel consumed, and the balance of fuel remaining.

Also, no one performs a physical inventory of the fuel on hand. Therefore, an accurate accounting of the fuel physically in the tanks cannot be performed at any given point in time. Furthermore, the Superintendent did not record the total meter readings displayed on the fuel pumps, which could have been used to confirm the amount of gallons of fuel that were recorded for the specific vehicles in the fuel logs. Lastly, the Superintendent did not compare the mileage per maintenance records for specific vehicles to their fuel consumption records for reasonableness.

We compared fuel purchases with fuel dispensed logs from June 2011 to May 2012 (the most recent fiscal year) to determine if fuel purchases were reasonable. A total of 11,811 gallons of diesel and unleaded fuel, totaling \$38,673, were purchased during our test period. According to the Superintendent's fuel logs, a total of 10,446 gallons of fuel was dispensed during the test period. This amount appears reasonable given the amount of fuel purchased during the period and because we did not identify any unusual activity in the fuel logs we reviewed. However, because the Superintendent failed to periodically measure fuel tank levels and then reconcile the inventory with fuel receipts and usage logs, it was impossible to determine whether all fuel purchased was used for legitimate Village purposes.

The failure to record periodic inventories and periodically reconcile the inventory with deliveries and usage readings places the Village at

a significant risk for inappropriate use or theft of fuel. Strengthening internal controls would give Village officials increased assurance that Village-purchased fuel is secured from loss and is used for legitimate Village purposes.

Recommendations

6. The Superintendent should maintain perpetual inventory records that identify the beginning inventory and the quantities of fuel purchased and dispensed. These records should be periodically reconciled to physical inventories of fuel on hand. Any differences should be promptly investigated and resolved.
7. The Superintendent should maintain fuel consumption records and compare total meter readings and mileage recorded in vehicle fuel logs to verify the reasonableness of the recorded fuel usage.

Information Technology

The Village relies on its information technology system to perform a variety of tasks, including word processing, email communication, Internet access, bookkeeping, payroll, and reporting to State and Federal agencies. Additionally, large amounts of information and data related to finances, taxes, user rents, payroll and personnel are stored on the IT system. The Village's use of IT presents a number of risks, such as from unauthorized access, that computerized equipment could be damaged or manipulated, or that data could be altered, misused, lost or corrupted without being detected. Even small disruptions in the IT system can require extensive time and effort to evaluate and repair.

Village officials are responsible for ensuring that the Village's IT assets are protected. This includes ensuring that employees are allowed access to only those functions that are consistent with their job responsibilities and that they are not involved in multiple aspects of financial transactions. If this is not feasible, then system activity should be periodically reviewed. The Board should also adopt a disaster recovery plan. These controls are especially important because of the increasing use of viruses, malware, and other malicious methods intended to harm data resources and gain access to valuable data.

Three Village employees have unrestricted access to software functions enabling them to record and change information and prepare and print checks without a procedure to review system activity. In addition, the Board has not developed a disaster recovery plan. As a result, the Village is at risk of loss or manipulation of records and the disruption of time-sensitive operations.

Financial Software Access Rights — A proper segregation of duties ensures that users of the Village's financial software are allowed access to only those functions that are consistent with their job responsibilities and that those users cannot be involved in multiple aspects of financial transactions. If this is not feasible, then system activity should be periodically reviewed.

The Treasurer, Clerk, and Deputy Clerk have full access to all financial software functions, although the Treasurer is the only user that requires this level of access. Each of these employees has the ability to record and change information and prepare and print checks. The Treasurer stated that this arrangement was made so that, in her absence, payroll can be processed without disruption. This

situation exists because the Board has not adequately assigned user access to the financial software based on job function. Despite the poor segregation of duties, the Board has not established a procedure to periodically review system activity.

Unnecessary or excessive software access rights could result in unauthorized access to the Village's sensitive information, manipulation of records, and/or the loss or misuse of critical or confidential data.

Disaster Recovery — A disaster recovery plan provides a framework for reconstructing vital operations to ensure the resumption of time-sensitive operations and services in the event of an emergency. A strong system of internal controls includes a disaster recovery plan that describes how the Village plans to deal with potential disasters. Such disasters may include any sudden, catastrophic event (e.g., fire, computer virus, power outage, or a deliberate or inadvertent employee action) that compromises the availability or integrity of the IT system and data. The plan should detail the precautions to minimize the effects of a disaster and enable the Village to either maintain or quickly resume critical functions. The plan should include a significant focus on disaster prevention and should be distributed to all responsible parties, periodically tested, and updated as needed.

The Board has not developed a formal disaster recovery plan. Consequently, in the event of a disaster, Village personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures. Further, without a disaster recovery plan, the Village is at risk for the loss of important data and the disruption of time-sensitive operations.

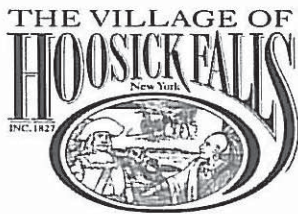
Recommendations

8. The Board should assign financial software access rights to users of the Village's financial software based on their job descriptions while ensuring they cannot be involved in multiple aspects of financial transactions. If this is not feasible, then system activity should be periodically reviewed.
9. The Board should establish a formal disaster recovery plan to address the range of potential threats to the Village's IT systems and data and provide guidance to maintain or quickly resume operations in the event of a disaster. The plan should be distributed to all responsible parties, periodically tested, and updated as needed.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Municipal Building
24 Main Street
Hoosick Falls, NY 12090

Phone: 518-686-7072
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village@hoosick.org

Mayor:
Matthew T. Monahan

Deputy Mayor:
Paul Haynes Jr.

Trustees:
Robert Downing
Ric DiDonato
John Hickey
David Borge
Jeremy Driscoll

Unit Name: Village of Hoosick Falls
Audit Report Title: Internal Controls Over Selected Operations
Audit Report Number: 2013M-1

The following document is in response to the audit report "Internal Controls Over Selected Operations" prepared by the Office of the State Comptroller for the Village of Hoosick Falls. Please let this document serve as both the Audit Response and Corrective Action Plan for the Village of Hoosick Falls. Responses and corrective actions to be taken are outlined as follows:

Treasurer's Duties

1. "The Board should adopt policies establishing responsibilities and duties for the Treasurer for handling cash and maintaining accounting records."
 - a. The Village has begun evaluating the positions of Treasurer, Clerk and Deputy Clerk. At the end of these evaluations revised job descriptions will be created. Job descriptions will clearly state the roles and responsibility of each office worker. Within these job descriptions the handling of cash and process of oversight will be directly addressed.
 - b. Implementation of this corrective action began March 1st, 2013 and will be completed no later than July 1st, 2013.
 - c. This corrective action is the responsibility of the Mayor and Deputy Mayor.
2. "The Treasurer should prepare and file the Village's annual financial report with the Office of the State Comptroller in a timely manner."
 - a. Extenuating circumstances stemming from recent Water and Sewer Projects resulted in an increased workload for office staff and contributed to the delay of the annual report. The importance of the Annual Report and its timeliness has been reviewed with the Mayor and Treasurer. The Annual Report will be prioritized higher going forward. The Annual Report will be filed on time. In the event of a delay an extension will be filed in a timely manner.
 - b. This corrective action was implemented on January 1, 2013.
 - c. This corrective action is the responsibility of the Treasurer with oversight provided by the Mayor.
3. "The Board should implement compensating controls to reduce the risks associated with the lack of segregation of duties performed by the Treasurer. The controls should include periodically reviewing the records maintained by the Treasurer, reviewing bank statements, reconciliations or journal entries, performing timely and adequate reviews and certification of each payroll prior to the Treasurer preparing pay checks, and performing a thorough claims audit and approving claims before the Treasurer processes them for payment."
 - a. The lean office staffing of the Village has made segregation of duties a challenge. The Village Board has begun correcting this matter through better segregation and increased board oversight. The Village Board is currently identifying tasks that can be segregated without impacting the business performance. Areas that cannot be segregated will have a Trustee assigned to them to provide oversight. If the board does not have means to provide proper oversight use of a third party will be implemented. This process of segregation and oversight will be outlined in work instructions on file in the Village Office.

Audit Response and Corrective Action Plan

- b. This corrective action began March 5th, 2013 and will be completed no later than July 1st, 2013.
 - c. This corrective action is the responsibility of the Mayor and Board of Trustees.
- 4. "The Treasurer should ensure all penalties for billed receivables are correctly assessed and that all collections are deposited in a timely manner."
 - a. While the audit outlines a number of incorrectly assessed penalties this is not the case. The penalties and fines not assessed all fell under the category of water and sewer utility payments. During the audit period of June 1, 2010 – May 31, 2012 the Village of Hoosick Falls was undergoing a transition period from flat rate to metered billing. As part of this process issues were identified with services. In such cases the penalties and fines were waived while the issues could be addressed. Going forward the Village will better document such circumstances to make the process of forgiving utility penalties more transparent.
 - b. This corrective action was completed March 1st, 2013.
 - c. This corrective action is the responsibility of the Mayor, Treasurer and Clerk.
- 5. "The Board should conduct an audit, or cause an audit, of the Treasurer's records and supporting records on an annual basis."
 - a. Going forward the Village will comprise an annual audit committee made up of both Trustees and independent volunteers. The audit committee will be responsible for conducting quarterly reviews and presenting an annual audit report to the Village Board for approval. The audit process followed by the committee will be documented in work instructions on file in the Village Offices.
 - b. This corrective action will be completed no later than July 1st, 2013.
 - c. This corrective action is the responsibility of the Mayor and Deputy Mayor.

Fuel Inventory

- 6. "The Superintendent should maintain perpetual inventory records that identify the beginning inventory, and the quantities of fuel purchased and dispensed. These records should be periodically reconciled to physical inventories of fuel on hand. Any differences should be promptly investigated and resolved."
 - a. The Village Board and the Highway Superintendent have revised the record keeping procedure and record retention policy for all fuel purchases and disbursements. Documents now further outline purchases and delivery details. Tanks are now routinely stick read to verify delivery and usage reports.
 - b. This corrective action was completed on December 15th, 2012.
 - c. This corrective action is the responsibility of the Highway Superintendent and Highway Committee Chairperson.
- 7. "The Superintendent should maintain fuel consumption records and compare total meter readings and mileage recorded in vehicle fuel logs to verify the reasonableness of the recorded fuel usage."

Audit Response and Corrective Action Plan

- a. Improvements to the meters on dispensing tanks now allow for more accurate record keeping. Work instructions have been created to insure those using gas make accurate records of their usage. Records of usage are now periodically checked against inventory and purchases to ensure accuracy.
- b. This corrective action was completed on December 15th, 2012.
- c. This corrective action is the responsibility of the Highway Superintendent and Highway Committee Chairperson.

Information Technology

8. "The Board should assign financial software access rights to users of the Village's financial software based on their job descriptions while ensuring they cannot be involved in multiple aspects of financial transactions. If this is not feasible, then system activity should be periodically reviewed."
 - a. Permissions have been modified so that all users no longer have administrative rights over the financial system. Access rights will continue to be modified as segregation of duties takes place as outlined in items 1 and 3 above.
 - b. This corrective action will be completed no later than July 1st, 2013.
 - c. This corrective action is the responsibility of the Mayor and Treasurer.
9. "The Board should establish a formal disaster recovery plan to address the range of potential threats to the Village's IT systems and data, and provide guidance to maintain or quickly resume operations in the event of a disaster. The plan should be distributed to all responsible parties, periodically tested, and updated as needed."
 - a. The Village has taken steps to improve both onsite and offsite backups. A detailed disaster recovery document is being created to provide instruction in the event of an emergency. The disaster recovery document will be available at Village locations.
 - b. This corrective action will be completed no later than May 31st, 2013.
 - c. This corrective action is the responsibility of the Mayor and Deputy Mayor.

In summary, the Village Board acknowledges the findings of the audit to be accurate and fair. This audit has helped the Village to identify areas of weakness in our processes and procedures and we are committed to correcting them. The Village has begun working diligently to implement corrective actions and alleviate any points of concern. All corrective actions will be completed in a timely manner and documented in a fashion to prevent future deficiencies.

Signed:

Matthew T. Monahan
Mayor – Village of Hoosick Falls

3/21/13
Date

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, cash management, cash receipts, cash disbursements, billed receivables, purchasing (including consumable inventories), asset management, payroll and personnel services, information technology, and the justice court.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions, and reviewed pertinent documents, such as Village policies, Board minutes, and financial records and reports. Further, we reviewed the Village's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

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 on the reported objective and scope by selecting for audit the areas most at risk. We selected Treasurer's duties, fuel inventory, and IT for further audit testing. Our audit included the following procedures:

- We reviewed Village policies and procedures, annual financial reports, monthly financial reports, and the adopted budgets for 2010-11, 2011-12, and 2012-13.
- We examined water, sewer, trash, and tax bills, receipt documentation, and bank statements.
- We examined payroll registers and supporting documentation, paid bills, bank statements, deposit records, receipt summary reports, and paid claim documentation and abstracts.
- Except where otherwise noted, our selections of billed receivables, payroll, and claims processing were made using the random number generator in our spreadsheet application. We tested 40 receipts, totaling \$5,054, and judgmentally selected the top 10 highest amounts paid receipts, totaling \$69,872, to determine if the receipts were billed correctly, paid as billed, supported, and deposited in a timely manner. We tested 10 late tax receipts, totaling \$7,429, to see if they were billed correctly, paid as billed, supported, and deposited in a timely manner. In addition, we randomly selected three payroll dates for testing and from those payrolls tested 10 employees, for a total of \$26,309 gross payroll tested, to see if they were paid correctly, adequately supported and authorized. We tested 20 claims from each fiscal year (40 claims totaling \$121,405) of our scope for evidence of board audit, authorization, support, and reasonableness. We spoke with knowledgeable Village officials where necessary.
- We reviewed policies and procedures, fuel logs, and claims for fuel purchases; observed the fuel tanks and pumps; and made inquiry of knowledgeable Village personnel regarding internal controls over fuel.

- We reviewed policies and procedures, observed online computer screens, and made inquiry of knowledgeable officials regarding user access and disaster recovery procedures.

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

APPENDIX C

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