



# Village of Smyrna

## Clerk-Treasurer's Duties

### Report of Examination

Period Covered:

June 1, 2011 — February 6, 2013

2013M-114



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

July 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 Smyrna, entitled Clerk-Treasurer's Duties. 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*

# Introduction

## Background

The Village of Smyrna (Village) is located in the Town of Smyrna in Chenango County. The Village has 213 residents and provides various services including water distribution, sewage treatment, snow removal, and general government support. The Village's annual budget for all funds in the 2012-13 fiscal year was \$162,478, funded mainly from real property taxes, sales tax, fire protection revenues, and water and sewer fees.

The Board of Trustees (Board) comprises three elected members, including the Mayor and two Trustees. The Board governs the Village and is responsible for the general management and control of the Village's finances and operations. The Mayor serves as the Village's chief executive officer. The Clerk-Treasurer<sup>1</sup> serves as the Village's chief fiscal officer and is responsible for the custody of all Village money, maintaining accounting records, signing checks, processing payroll, preparing financial reports, and filing an annual financial report with the Office of the State Comptroller (OSC).

## Objective

The objective of our audit was to determine if the Mayor and Board properly monitored the Village's fiscal operations. Our audit addressed the following related question:

- Did the Mayor and Board ensure that the Clerk-Treasurer properly performed her duties?

## Scope and Methodology

We examined the Village's financial records for the period June 1, 2011, to February 6, 2013.

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

## Comments of Local Officials and Corrective Action

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

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and

<sup>1</sup> The current Clerk-Treasurer replaced the previous Clerk-Treasurer in February 2012. Unless otherwise specified, "Clerk-Treasurer" in this report refers to both of these individuals.

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 Clerk-Treasurer's office.

## Clerk-Treasurer's Duties

The Clerk-Treasurer, as the Village's chief financial officer, is responsible for collecting, receiving, and having custody of all Village money and for making payment on claims (vendor bills) after the Board audits and approves them. The Mayor and Board are responsible for the management of all Village property and ensuring that all Village moneys are accounted for and disbursed only for proper Village purposes. This responsibility includes segregating key duties so that the same person does not control all or most aspects in a financial transaction, or otherwise instituting mitigating controls, such as independent reviews. Additionally, to properly monitor the budget, the Board should receive and review detailed monthly financial reports that include, at a minimum, cash balances, comparisons of actual revenues and expenditures to budgets, and bank reconciliations along with bank statements. The Clerk-Treasurer is also required to complete and submit the Village's annual financial report to OSC no later than 60 days after the close of the fiscal year. Further, Village Law requires that the Board annually audit, or have a Village officer, employee, or an independent public accountant audit, the records and reports maintained by the Clerk-Treasurer on the Village's behalf. An annual audit is particularly important when there is an inadequate segregation of duties.

The Board did not properly segregate the Clerk-Treasurer's financial duties or provide oversight of her work; did not require the Clerk-Treasurer to provide monthly financial reports for monitoring the Village's financial condition; and did not ensure that the Village's annual financial reports were filed with OSC in a timely manner. Further, the Board did not conduct an annual audit of the Clerk-Treasurer's records and reports. Due to the lack of sufficient Board oversight and monitoring, the Village's actual financial activities varied greatly from the Board's adopted budgets, and there is an increased risk that errors and irregularities could occur and remain undetected and uncorrected.

We compared the 2011-12 adopted budget to the actual revenues and expenditures and found that 20 out of 43 expenditure lines were over-expended by a total of more than \$89,000 in the general fund,<sup>2</sup> resulting in the general fund's total expenditures exceeding appropriations by approximately \$55,900, or 50 percent of its budget. This significant variance was partially offset by general fund revenues, which exceeded the budgeted revenues by approximately \$52,700

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<sup>2</sup> Of the remaining expenditure line items, 22 were under-expended by a total of approximately \$33,000.

(excluding appropriated fund balance), leading to an operating deficit of approximately \$13,200. If revenues had not exceeded estimates, the Village’s financial condition would have been negatively affected to an even greater degree.

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Revenues	\$100,887	\$153,565	\$52,678
Expenditures	\$110,938	\$166,811	\$55,873
<b>Surplus/(Deficit)</b>		<b>(\$13,246)</b>	

Had the Board properly monitored the budget and provided better oversight of the Clerk-Treasurer’s work, this deficit could have been avoided.

Our review of the Clerk-Treasurer’s work did not disclose any significant discrepancies related to receipts and disbursements.<sup>3</sup> We found minor discrepancies that we communicated verbally to local officials. However, since no one regularly monitors or verifies her duties, errors may occur or money due the Village may not be properly deposited, without detection by Village officials.

Segregation of Duties – The Clerk-Treasurer performed all key financial duties without oversight, including collecting, recording, and depositing of all money received at the Village, comprising real property taxes, water and sewer user fees, and any other Village receipts.<sup>4</sup> Further, the Clerk-Treasurer prepares water and sewer billings based on water meter readings, prepares the claims warrants (listing the claims to be paid), and prepares and signs checks. She also reconciles book balances to adjusted bank balances, which is intended to detect any discrepancies between the Village’s accounting records and the activity in Village bank accounts. However, the benefits of this control are diminished when bank reconciliations are performed by the same person who handles receipts and disbursements and also keeps the records. Even though the Clerk-Treasurer’s duties were not segregated, the Mayor and Board did not review her work or otherwise implement any mitigating controls, either during the former Clerk-Treasurer’s tenure or when the current Clerk-Treasurer took office. Without adequate segregation of financial duties or independent review, there is an increased risk of errors and irregularities. For example, the Clerk-Treasurer could, accidentally or intentionally, not

<sup>3</sup> We performed certain tests of transactions to ensure that the deposit of receipts was timely and intact and that disbursements were for proper Village purposes. See Appendix B – Audit Methodology and Standards for details of that testing.

<sup>4</sup> For example, interest and penalties on taxes and water/sewer user fees

bill the proper amounts for water and sewer, not deposit all Village receipts, or disburse Village money without Board approval.

We also found that, while the Board reviews and approves individual claims to be paid, no one independent of the Clerk-Treasurer compares the claims listed on the warrants to the canceled (paid) check images, and no one reviews the bank reconciliations of the accounting records to the bank statements. Therefore, a check could potentially be issued for inappropriate purposes without being detected. Similarly, no one compares the customer water-meter readings, provided by the head of the Water/Sewer Department, to the actual billings; as a result, there is a risk of customers not being billed or being billed incorrectly.

Reports – The Clerk-Treasurer’s monthly report to the Board includes only cash balances for each Village bank account, and the Board receives a budget status report just once per year, during the budget preparation process. Although the Clerk-Treasurer has more detailed interim financial reports available for review, such as bank reconciliations and budget status reports, the Board does not request these reports. In addition, the current Clerk-Treasurer had not been trained to properly file the annual financial reports, which the previous Clerk-Treasurer was unable to do due to illness. The most recent annual financial report the Clerk-Treasurer filed with OSC was in November 2010 for the 2008-09 fiscal year. The lack of adequate financial reports hinders the Board’s oversight of Village finances and precludes the public from reviewing the Village’s financial operations and condition. The financial reports for fiscal years 2009-10, 2010-11, and 2011-12 have yet to be filed; however, the Village has contracted with a local accounting firm to assist with filing these delinquent reports.

Finally, the Board does not perform or otherwise obtain an annual audit of the Clerk-Treasurer’s records and reports, as required, which helps ensure that the Clerk-Treasurer properly fulfills her responsibilities. The lack of an annual audit – particularly when key financial duties are performed by one person and the Board does not monitor the Village’s financial condition – is a valuable tool for identifying accounting errors or potential misuse of District funds.

## **Recommendations**

1. The Clerk-Treasurer should not over-expend appropriation accounts. The Board should amend the budget prior to approving payments that would exceed available budgetary appropriations.
2. The Board and Mayor should provide adequate oversight of the Village’s financial operations. If it is not practicable to segregate the Clerk-Treasurer’s duties, the Board and Mayor should

establish mitigating controls, such as independent reviews of the Clerk-Treasurer's work.

3. The Board should require the Clerk-Treasurer to provide periodic reports summarizing the financial activity of the Village, and compare that activity to the adopted budgets.
4. The Clerk-Treasurer should obtain training as necessary.
5. The Clerk-Treasurer should prepare and file the delinquent annual financial reports and file future reports with OSC in a timely manner.
6. The Board and Mayor should audit, or provide for an audit, of the Clerk-Treasurer's records and reports.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

Village of Smyrna  
PO Box 25  
Smyrna, NY 13464  
607-627-6716

David V. Raimy, Mayor

July 9, 2013

H. Todd Eames, Chief Examiner  
State Office Building Suite 1702  
44 Hawley Street  
Binghamton, NY 13901

Re: Village of Smyrna Clerk-Treasurer's Duties  
Report of Examination 2013M-114

Dear Chief Examiner:

On the 9th day of July, 2013, the Board of the Village of Smyrna held a Special Meeting to discuss the above-referenced Report of Examination. Members present were David V. Raimy, Mayor, Terry Bennett, Trustee, Eugene Fuller, Trustee, and Vicki Lamoreaux, Clerk/Treasurer.

The Board accepts the audit as is, and advises that we are working on a corrective action plan. We are aware that the former Clerk/Treasurer did not follow procedures, having started employment under difficult conditions and with little training.

Presently, a newly-appointed board has been elected, and a new Clerk/Treasurer has been hired, which is a great time to make a corrective action plan. The new Clerk/Treasurer, Vicki Lamoreaux, has an accounting background with 17 years of experience. To date, all of the checking accounts have been reconciled through May 31, 2013.

Sincerely,

David V. Raimy, Mayor

DVR:vl

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine financial information to determine if the Mayor and Trustees ensured that the Clerk-Treasurer properly performed her duties. To accomplish our audit objective and obtain valid and relevant audit evidence, we interviewed appropriate Village officials and tested selected records and transactions, examined pertinent documents, and performed the following procedures:

- We reviewed a sample of 20 canceled check images, totaling \$8,887, payable to vendors that could be used for personal bills (i.e., utility providers, supermarkets, gas stations, heating oil deliveries, etc.) and traced the checks to Board-approved abstracts and vouchers to determine if the checks were for proper Village purposes.
- We reviewed canceled check images for payments sent to the Clerk-Treasurer, Mayor, and Trustees for amounts other than the payroll amount at expected times. We did not find any checks written other than the expected payroll amounts at the expected times.
- We reviewed 20 withdrawals and 30 transfers from June 2011 to December 2012 and determined whether they were made for proper Village purposes.
- We traced readings from the water meter reading book to the water/sewer bills for 25 accounts for one billing quarter, and for the Clerk-Treasurer's account for the entire scope period, to determine if the correct readings were applied to the bills.
- For the most recent billing quarter (October 2012 to December 2012 inclusive), we compared 100 percent of the water/sewer receipts from the water bills to the deposit slips and bank statements to determine if deposits were timely and intact.
- For the most recent property tax bills, we compared 100 percent (84 taxable properties) of taxes recorded as received to deposit slips and bank statements to determine if deposits were timely and intact.
- We examined the property tax bills and noted all accounts recorded as unpaid and their amounts due, using the most recent year (2012) in which unpaid taxes were re-levied. We traced the totals to Board minutes and to Chenango County's copy of the settlement sheet to determine if all applicable accounts were re-levied as necessary.
- We examined the water/sewer bills and noted all accounts recorded as unpaid and their amounts due. We traced the totals to Board minutes, and we traced the amounts from the bills to the County's copy of the water/sewer re-levy sheet, comparing the amounts to determine if all applicable accounts were re-levied as appropriate.
- We met with Village officials to obtain an understanding of internal controls and to determine the cause of any discrepancies found during our testing.

- For the months of December 2011 and January 2013, we compared 100 percent of the canceled check images from the bank statements to vouchers and warrants to verify Board approval and to determine if check numbers, dollar amounts, and payees agreed.
- We obtained total expenditures and total revenues by line item for the fiscal year ending May 31, 2012, from the accounting records and compared this information with the fiscal year 2011-12 adopted budget to determine if there were any significant variances between budgets and actual operating results.

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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Andrew A. SanFilippo, Executive Deputy Comptroller  
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