



Village of Monticello Board Oversight

Report of Examination

Period Covered:

August 1, 2014 — April 6, 2016

2016M-337



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2017

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 Monticello, entitled Board Oversight. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State 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 Monticello (Village) is located in the Town of Thompson in Sullivan County and has a population of approximately 6,500 residents. The Village is governed by the Board of Trustees (Board), which is comprised of an elected Mayor and four elected trustees. The trustees, along with the Mayor, are responsible for the overall management and oversight of Village operations.

The Village Manager (Manager), who is appointed by the Board, is the Village's administrative head. The Village Treasurer (Treasurer), who is appointed by the Mayor with Board approval, is the custodian of all Village money and is responsible for collecting, recording and disbursing money, and for other duties as directed by the Board. The Village Clerk/Tax Collector (Clerk), who is also appointed by the Mayor with Board approval, is responsible for billing, collecting and recording all real property taxes in the subsidiary accounts.

The Village's annual budget for all funds for the 2015-16 fiscal year was \$12.2 million, funded primarily from real property taxes, State and federal aid and user fees. The Village provides water services to residents and some property owners outside of the Village.

Scope and Objective

The objective of our audit was to assess the Board's and officials' oversight of Village operations for the period August 1, 2014 through April 6, 2016. We extended our scope back to August 1, 2011 to review prior audit reports and extended our scope forward to July 31, 2016 to review four quarterly water billings and all taxi license numbers issued in 2015-16. Our audit addressed the following related question:

- Did the Board and other officials properly oversee Village operations?

Audit Results

The Board failed to fulfill its basic responsibilities of stewardship, oversight and leadership. Board members and Village officials did not perform many of the duties of their positions, which resulted in significant Village-wide dysfunction. For example, the Board has not addressed repeated deficiencies related to previous audit findings. Specifically, the Board and Village officials have not addressed the deficiencies related to the audit of claims and the completion of bank reconciliations.

Village departments are operating without sufficient oversight or clear guidance on the lines of authority. As a result, significant errors occurred in key business functions. Water rents are a major revenue source for the Village water fund. However, we found that water bills are often generated on

meter readings or estimated readings that did not appear to be reasonable. For example, we found that 37 accounts had identical estimated readings for four consecutive billing cycles. In addition, when the Treasurer and Account Clerk/Deputy Treasurer positions were vacant, the Board instructed the Village Clerk to prepare the payroll. The Clerk did not receive any training on processing payroll. As a result, she overpaid four employees over \$8,600 and processed a duplicate payroll for 52 employees. The Clerk also did not properly issue receipts for all money received and did not deposit collections in the bank in a timely manner.

The Village has experienced significant employee turnover in key positions. The Board's lack of effective leadership has likely contributed to the significant turnover which, in turn, added to the negative working environment. Furthermore, the Village has no succession planning procedures in place to assure service continuity when the Village experiences employee turnover. Overall, these conditions place the Village's financial operations at high risk of abuse or errors and severely inhibits the Village's ability to ensure residents that services will be provided.

Comments of Village Officials

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

Introduction

Background

The Village of Monticello (Village) is located in the Town of Thompson in Sullivan County and has a population of approximately 6,500 residents. The Village provides various services, including police protection, road maintenance and snow removal, sanitation, water distribution, sewage treatment and general government support. The Village's annual budget for all funds for the 2015-16 fiscal year was \$12.2 million, funded primarily from real property taxes, State and federal aid and user fees.

The Village is governed by the Board of Trustees (Board), which is comprised of an elected Mayor and four elected trustees. The trustees, along with the Mayor, are responsible for the overall management and oversight of Village operations. The Village Manager (Manager), who is appointed by the Board, is the Village's administrative head. The Village Treasurer (Treasurer), who is appointed by the Mayor with Board approval, is the custodian of all Village money and is responsible for collecting, recording and disbursing money, and for other duties as directed by the Board. She is also responsible for maintaining the accounting records, signing checks and preparing all internal and external financial reports. The Village Clerk/Tax Collector (Clerk), who is also appointed by the Mayor with Board approval, is responsible for billing, collecting and recording all real property taxes in the subsidiary accounts.

The Village provides water services to residents and some property owners outside of the Village. The Village bills users quarterly based on the number of cubic feet consumed. Quarterly charges are calculated based on meter readings collected by the Village meter reader.

Objective

The objective of our audit was to assess the Board's and officials' oversight of Village operations. Our audit addressed the following related question:

- Did the Board and other officials properly oversee Village operations?

Scope and Methodology

We examined the Village's financial operations for the period August 1, 2014 through April 6, 2016. We extended our scope back to August 1, 2011 to review prior audit reports and extended our scope forward to July 31, 2016 to review four quarterly water billings and all taxi license numbers issued in 2015-16.

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 D of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of Village
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with Village officials, and their comments, which appear in Appendix C, have been considered in preparing this report. Village officials agreed with our findings and indicated they planned to take 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 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's office.

Board Oversight

The Board is the Village's governing body and is responsible for the general management and control of the operations and finances of the Village in order to ensure that services can be provided to residents. The Board meets this responsibility by establishing policies to guide operations and providing oversight of operations to ensure compliance with those policies. This responsibility includes establishing a system of internal controls that consists of policies and procedures that provide reasonable assurance that cash and other resources are properly safeguarded.

An important component of any system of internal controls is the control environment or "the tone at the top." The control environment is the foundation of a good internal control system, providing discipline and structure upon which the other components are based. It reflects management's attitude about internal controls and includes the integrity, ethical values and competence of the entity's personnel and management's philosophy and operating style. When this foundation is not strong or the control environment is not positive, the overall internal control system will not be as effective as it should be.

To establish an effective control environment, the Board must act with the highest ethical standards and carry out its oversight responsibilities by conforming with the applicable laws, rules and guidelines that it expects its staff to follow. The Board must be a leader in diligently protecting public resources that are entrusted to it. The control environment includes addressing reported deficiencies from external audits so that corrective action can be taken to improve operations. Another important aspect of the Board's oversight is recognizing Village employment trends in key positions. Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available and ensures the continuity of the performance of key financial duties.

The Board did not fulfill its fundamental responsibilities of stewardship, oversight and leadership. The continued failure of the Board members and officials to perform many of the duties of their positions has resulted in significant government-wide dysfunction. The Board has not addressed repeated deficiencies related to the Village's audit of claims identified in prior audits and has no procedures in place to maintain service continuity in the event of employee turnover. Furthermore, Village departments are operating without sufficient oversight or clear guidance on the lines of authority. This

has resulted in significant errors occurring in key business functions. All of these conditions place the Village's financial operations at high risk of abuse or errors and jeopardize the Village's ability to provide services to its residents. The vacuum of effective Board leadership has also likely contributed to the significant turnover in key positions which, in turn, added to the negative environment.

Previous Audit Findings

External audits provide a valuable tool for local governments to address deficiencies in their operations. Accordingly, the Board should take corrective action as suggested in those audits. Failure to act on recommendations only serves to exacerbate the deficiencies and allows them to become a routine aspect of daily operations.

We reviewed the two prior OSC reports¹ and four prior CPA reports² and found repeated deficiencies identified in those reports. Even after multiple reports with repeated deficiencies, the Board has failed to take appropriate corrective action. For example, the Board has not ensured that claims are properly audited and bank reconciliations are completed accurately and in a timely manner.

Claims Audit – The audit and approval of claims is one of the most critical elements of a governing board's duties and responsibilities. Claims must be audited and approved by the Board prior to authorizing the Treasurer to make payment to ensure that disbursements are for valid expenditures and that goods or services have actually been received.

All Board members sign a voucher summary report³ to attest that they have audited and approved the claims identified in the report. In addition, several Board members told us they sign the purchase order⁴ attached to each claim as further evidence of their audit. However, Village officials told us that the Board, as a body, does not audit the claims and that Board members' signatures are merely administrative in nature. Based on our review of voucher summary reports and purchase orders, we found that, while all Board members signed the voucher summary report, only three, or occasionally four, Board members signed the purchase orders as evidence of the claims audit. Furthermore, we found they typically audited the claims after checks were printed and mailed, which makes their audit ineffective.

¹ <http://www.osc.state.ny.us/localgov/audits/villages/2014/monticello.pdf> and <http://www.osc.state.ny.us/localgov/audits/villages/2012/monticello.pdf>

² The reports were for fiscal years 2011-12, 2012-13, 2013-14 and 2014-15.

³ A voucher summary report lists each claim that is to be paid and includes vendor name, amount and account code.

⁴ A claims packet typically contains an invoice, purchase order and receipt of goods.

We tested 40 claims paid during our scope and found that 28 were audited after payments were made, and in some instances, after the check had been presented to the bank. The results of our testing is evidence that the Board's assertion that they have audited claims prior to payment is not accurate and that the deficiency remains uncorrected. If the Board does not prioritize its responsibility to make sure payments are only made for appropriate Village expenditures, it is unlikely other Village employees will see the importance of this function.

Bank Reconciliations – Bank reconciliations should be completed on a monthly basis to ensure the bank account balances agree with their corresponding cash balances in the accounting records. These reconciliations should be reviewed by someone independent of the process to ensure they are accurate and complete.

We reviewed the monthly bank statements and reconciliations for July and November 2015 and February 2016. We found that most of the bank accounts were not properly reconciled. More specifically, 33 of the 45 bank statements were either not reconciled or the reconciliations that were prepared were inaccurate. For example, the Treasurer failed to address numerous reconciling items and instead, carried them over from month to month. Furthermore, no one other than the Treasurer reviewed the bank reconciliations for accuracy and completeness.

Departmental Operations

The Board is responsible for establishing appropriate internal controls to safeguard the Village's assets. Accordingly, it is important for the Board to establish policies and procedures to provide assurance that departmental billings and collections are adequately supported, safeguarded, accounted for and deposited, and that revenues owed are billed and collected at the Board-established base and penalty rates. In addition to adopting policies, the Board should ensure the department heads comply with the policies.

Water Bills – Metered water rents are the major source of revenue for the Village's water fund. Therefore, the billings must be accurate and timely.

We found that water bills were based on meter readings or estimates that did not appear to be reasonable. We reviewed all supporting data for water bills issued between September 2015 and June 2016, or four billing cycles. We found the following:

- Multiple accounts had estimated readings for consecutive billing cycles. For example, 37 accounts had identical consumption for over four consecutive billing cycles; 14 of

those accounts had the same consumption for 10 or more consecutive billing cycles. Water department officials told us they could not access some of the meters to obtain an actual reading and residents did not return the postcards with the actual meter readings.

- Ninety-seven accounts, 70 residences and 27 businesses, had a meter reading of one, which generated a minimum bill, for all four billing cycles. This consumption equates to approximately 7.5 gallons⁵ of water. Water department officials told us that for some of the billings the reading of one was the actual reading. When an actual reading was not possible, the minimum consumption was used to generate a bill. They also told us that some of these properties are not occupied but the water service has not been turned off. Therefore, a bill must be generated. At least five of the business accounts were associated with operating, established businesses⁶ in the Village. Therefore, we question the validity of the minimum consumption by these businesses.

The significant number of estimated readings occurred because the Board has not established any policies or procedures to establish an acceptable number of consecutive estimated readings before an actual reading was done or address how accounts should be billed for minimum usage. Additionally, the Water and Sewer Superintendent was not aware of the number and frequency of estimated readings.

Given the addresses associated with these accounts, we question the amount of water consumed over this period of time. Without periodic actual readings, consumption for properties could be significantly underestimated or overestimated resulting in significant adjustments to bills, or inaccurate water system data for the purpose of monitoring water operations.⁷ The Village was recently approved for a \$600,000 grant for meter replacement. Officials expect the number of estimated readings to decline once those meters are installed.

Water Department management being unaware of or failing to take action in regards to so many estimated meter readings for a period of several years is consistent with the poor control environment that flows down from the Board.

⁵ For perspective, new, high efficiency toilets consume approximately 1.5 gallons per flush.

⁶ These included account names associated with two banks, a CPA firm, a pharmacy and a furniture store.

⁷ Water consumption figures are an important component of calculation for such things like unaccounted water which are used to ensure the water system is operating effectively.

Payroll – Due to vacancies in both the Account Clerk/Deputy Treasurer and Treasurer positions, the Board had the Clerk, who was not familiar with processing payroll, perform the payroll functions. The Clerk processed payroll for several months when there were vacancies in either the Treasurer or Account Clerk/Deputy Treasurer positions. Therefore, no one familiar with payroll processing was available to assist her. As a result, while the Clerk was processing payroll, certain errors occurred.

- She overpaid three former employees and one current employee over \$8,600 for accrued leave or overtime to which they were not entitled. Of this overpayment, \$3,900 was not recovered from former employees. Additionally, she underpaid one former employee \$2,100 for accrued leave and when she attempted to correct this on a subsequent payroll, she overpaid this employee \$99.
- She processed a payroll twice in July 2015 resulting in 52 employees receiving \$149,100 additional pay to which they were not entitled. She did not discover the error until after paychecks were directly deposited into the employees' bank accounts. Upon discovering the error, the Village's payroll service provider processed a reverse direct deposit to recover the funds paid. However, there were insufficient funds in four employees' accounts which required the Clerk to set up repayment plans totaling \$5,900 to recover the excess pay.

Village Clerk Cash Receipts – The Clerk collects payments and fees for various bills or licenses. Money collected generally is supported with a receipt, properly recorded in the accounting system and should be deposited in a timely manner in accordance with the Board resolution for cash receipts.⁸

Cash receipt transactions are processed in the Clerk's office using a computer system that generates a duplicate receipt and records the transactions in the accounting records. However, to expedite the process during high-volume collection periods, staff manually prepares and issues three-part, pre-numbered manual receipts to process certain transactions such as taxi licenses. In those instances, staff issue a manual receipt to document and account for the cash received and later enter the receipt into the computer system. This process results in dual, differently numbered receipts issued for the same transaction. Furthermore, staff did not properly maintain the manual receipt books. We reviewed three receipt books and found that receipts were either not used, used out of sequence, or all or portions of the receipt were missing.⁹

⁸ <http://www.villageofmonticello.com/Minutes/150106-Minutes.pdf>

⁹ Appendix A includes a sample of the deficiencies we identified.

Given the inconsistent use of the manual receipts, any attempts to reconcile transactions between the accounting records and the manual receipts are futile. Due to the inconsistencies with the receipt process, we tested all licenses issued to taxi drivers during the 2015-16 fiscal year to ensure they were properly recorded in the accounting system and deposited. We found minor discrepancies that we communicated to Village officials. Maintaining two independent systems of receipts increases the risk that errors and irregularities could occur and not be detected.

In addition, the Clerk did not deposit money within 24 hours as required by Board resolution. We found that the Clerk made 26 deposits between two and 85 days after collection. This occurred because the Board did not enforce the Village's cash receipt policy. The Clerk told us she was too busy to make deposits within 24 hours and she maintains two receipt systems because it is easier to use the manual receipt book when issuing receipts at the window.

Succession Planning

Succession planning can be defined as a process for developing existing employees by cross-training to fill key business positions in the municipality in the event of unexpected vacancies or staff changes. Consistent turnover in staffing should be an indication to the Board that some form of succession planning is important for sustained, uninterrupted financial operations. Moreover, breakdowns in key business functions can occur when the Board and officials do not establish clear job descriptions for positions, assess employee turnover and adequately cross-train their staff to perform the job duties of key positions when they are vacated.

The Board did not have a plan in place during periods of unexpected vacancies or staff changes. Over the last several years, the Village has experienced significant turnover in key positions.¹⁰ For example, there were lengthy vacancies in key business functions such as account clerks. More specifically there was over a one-month vacancy in the Treasurer function, and a more significant vacancy in the payroll clerk position.¹¹ The vacancies in key positions resulted in significant deficiencies in Village operations. Due to a high rate of staff turnover, both new and existing Village staff cannot effectively learn and properly perform their job functions. Because the Board has not developed adequate contingency plans, Village officials must use existing staff to fill the vacated positions even though they may not be familiar with the full scope and responsibilities of the position. Exacerbating this is the fact that a newly hired staff member then learns the job responsibilities from an employee who has an incomplete understanding of the job function.

¹⁰ See Appendix B for the timeline of staff turnover.

¹¹ The payroll clerk resigned in March 2015.

The Board and other officials have not established clear job descriptions for positions, assessed employee turnover or adequately cross-trained their staff to perform the job duties of vacated positions. Furthermore, they did not consistently use the results of exit interviews to improve working conditions. Those working conditions include the failure to foster a professional and courteous work environment. For example, we were provided with email communications between Village officials and employees that included statements that could be construed as more of a personal attack than a professional exchange of opinions and ideas in furtherance of the interests of the residents. This work environment may have had an influence on staff and contributed to the Village's significant staff turnover. We believe there was a general lack of consideration as to how this type of communication might hinder Village operations.

The Board and other Village officials failed to perform many of the fundamental duties of their positions, contributing to significant government-wide deficiencies. Even after numerous deficiencies were identified in previous audits, the Board failed to take even basic corrective action. We believe that the absence of policy enforcement and staff accountability may be due, in part, to the lack of clarity within the Village Code (Code) pertaining to the roles and responsibilities of Village officials, including the Manager. Specifically, the Code vests the Manager with the administrative and executive powers of the Village, including the power to appoint officers and employees (except the Clerk, Village Attorney and Treasurer) and states that the Manager is the administrative head of the Village government.¹² The Manager is required to see that the laws of the State and ordinances, rules and bylaws of the Board are faithfully executed within the Village.¹³ The Code also requires the Manager to make reports to the Board on the Village's affairs, and keep the Board fully apprised of the Village's financial condition and its future financial needs.¹⁴ However, the Code does not describe in detail the Manager's administrative and executive responsibilities or the manner in which the Manager is to interact with Village officials in order to perform the duties of the position. For example, at least one Board member has questioned the Manager's oversight responsibilities over the Clerk and Treasurer, who are appointed by the Board, not the Manager.

¹² Village Code Sections 45-5, 45-6; see also Village Code Section 45-7. The Code also provides that the Board may delegate "any administrative function or authority it is required to perform by law, local law, ordinance or resolution to the Village Manager as in its discretion it may deem appropriate." (Village Code Section 45-4).

¹³ Village Code Section 45-6.

¹⁴ *Id.*

This lack of detail in the Code may contribute to difficulties in the Manager’s ability to enforce policies related to key officials or to institute procedures to address departmental deficiencies. Given all of the serious deficiencies, there may be a lack of assurance that departments are operating effectively or that significant amounts of Village money have not been misappropriated. These conditions place the Village’s operations at high risk of abuse or errors and, unless corrected, could jeopardize the Village’s ability to provide services to its residents.

Recommendations

The Board should:

1. Become much more involved in management and oversight of Village operations and develop an appropriate leadership model. Timely and decisive corrective action to the deficiencies identified in audit reports and modeling appropriate actions should be a starting point to set an appropriate “tone at the top.”
2. Audit and approve all claims prior to payment.
3. Develop policies or procedures for meter readings including an acceptable number of estimated reads before other enforcement action is initiated.
4. Develop an integrated approach to succession management to include:
 - a. Continually assess potential employee turnover;
 - b. Provide a formal, written succession plan as a framework for succession initiatives; and
 - c. Develop written policies and procedures to facilitate knowledge transfer.
5. With the assistance of the Village Attorney, as necessary, clarify the intent of the Code as it relates to the Manager’s oversight role with regard to the Treasurer, Clerk and other departments. To the extent it is determined that under the Code, the Manager does not have oversight over those positions, then the responsibility of oversight may rest with the Board and the Mayor in accordance with the Village Law¹⁵ and the Board should consider updates to existing policies and procedures to clearly outline lines of authority.

¹⁵ See, e.g., Village Law Sections 4-400, 4-408, 4-412

The Treasurer should:

6. Pay claims only after the Board has audited and approved them for payment.
7. Complete accurate bank reconciliations on a monthly basis.

The Clerk should:

8. Discontinue the use of two independent cash receipts systems.
9. Deposit money in accordance with Board-established policies.

APPENDIX A

RECEIPT BOOK TESTING

Receipt Book 1	
Receipt Number	Date of Issue or Disposition
241201	05/13/2013
241202	Missing completely
241203	Missing completely
241204	Missing completely
241205	Present and unused
241206	12/01/2014
241207	08/04/2015
241212	08/13/2015
241213	08/10/2015
241234	Present and unused
241235	Present and unused
241236	Present and unused
241247	Missing top copy, other two copies blank
241248	Missing top copy, other two copies blank
241259	Present and unused
241260	Present and unused
241274	09/30/2015
241275	11/05/2015
241277	10/05/2015

APPENDIX B

TIMELINE OF EMPLOYEE TURNOVER

Manager

- April 2014 – Manager # 1 hired
- July 2014 – Deputy Manager hired
- August 2014 – Manager #1 resigns and Deputy Manager appointed as Interim Manager
- December 2014 – Interim Manager resigns and Manager #2 appointed

Account Clerk/Deputy Treasurer – payroll

- March 2015 – Account Clerk/Deputy Treasurer # 1 resigns
- April 2015 – Treasurer #1 assumes payroll processing duties
- May 2015 – Clerk selected to complete payroll processing duties
- June 2015- Account Clerk/Deputy Treasurer #2 hired to process payroll
- September 2015 – Account Clerk/Deputy Treasurer #2 resigns and Clerk is selected to complete payroll
- April 2016 - Account Clerk/Deputy Treasurer #3 hired to process payroll

Treasurer

- October 2015 –Treasurer #1 resigns
- December 2015 – Treasurer #2 appointed

Mayor

- April 2015 – Mayor resigns and Acting Mayor appointed
- June 2015 – Acting Mayor elected to Mayor

APPENDIX C

RESPONSE FROM VILLAGE OFFICIALS

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

VILLAGE OF MONTICELLO

January 12, 2017



H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

RE: Draft Audit Report covering 8/1/14 – 4/6/16
NYSOC Reference #: 2016M-337

Dear Mr. Eames:

On behalf of the Mayor and Trustees of the Village of Monticello, please accept this response to the serious concerns addressed by the Comptroller's Office Board Oversight Draft Report for the period of August 1, 2014 through April 4, 2016.

The Village of Monticello has experienced a tremendous vacancy rate and turnover of employees in key positions over the past several years. We have been working on addressing the concerns raised and will have more details in the Corrective Action Plan but would like to offer the following insight into the current status of concerns.

One of the areas of complaint was with a lack of accountability within the office of the Treasury. From January 2015 through the previous Village Treasurer's resignation in October 2015, there was a wedge placed between us by a single trustee that created dissention and little to no permissible oversight or communication. As a result, there was little emphasis on the oversight of payroll and the reconciling bank records (both basic jobs of the Village Treasurer). The current Village Treasurer, Melissa DeMarmels, was hired in December 2015. She is an extremely qualified individual who not only has a degree in accounting, but has also worked for a number of years in municipal accounting prior to her hire by the village. While struggling to deal with a lack of personnel and the pile of work left for her, she has been diligent in executing the duties of her position. She has worked tirelessly with me and the Village Board to instill a greater sense of not only accountability, but also personal responsibility. We are steadily working on the creation of specific policies and procedures for each of the vital employees at Village Hall so that work duties are clearly defined and understood. We hope to have them in place in the spring of 2017. In addition, after consultation with the Comptroller's Office and the village's private auditor, a decision was made to not fruitlessly attempt to untangle a rat's nest of past dereliction and start fresh moving forward. I am happy to state that as of Monday, January 9, 2017, the Treasurer made reconciliation of all current accounts and will do so faithfully moving forward.

As stated in the draft findings, one of the problems has been with the lack of and high turnover rate of employees in key positions. It is vital to any municipality that there be appropriate staffing and stability. Unfortunately, a single board member continues to create a circus-like atmosphere and adverse working conditions for employees. I believe that the Comptroller's

Office could clearly see some of that both through the tone and content emails that were shared with them, as well as, through an exit interview submitted by the prior payroll clerk. I am happy to report that, with the help of the current Treasurer, we have successfully hired a payroll clerk who has now been with the Village of Monticello since April 2016. She has received the appropriate training and past mistakes have been corrected. The payroll clerk has also been relocated to the Treasurer's Office on the second floor of the building so that there is appropriate oversight by the Village Treasurer. In order to ensure that we can retain qualified account clerks, a decision has been made with the White Collar Collective Bargaining Unit to raise the base salary of new account clerks.

Upon the departure of the prior Treasurer, the Village Clerk stepped forward to assume some of those responsibilities. It was done with the Clerk's assertion that she did have some working knowledge of how to perform payroll functions and with the understanding that she would receive additional pay for doing so. At no point during the Clerk's assuming of the payroll duties was she offered oversight or assistance from the prior Treasurer, however, she did have the ability to reach out to our payroll administrator [REDACTED] for consult and advice. To clarify this further, the prior Village Treasurer resigned from her position in October 2015, while the payroll issue that led to the double payment to a majority of employees occurred in July 2015. The entire situation was handled between myself and the Village Clerk, who worked diligently with [REDACTED] to correct the problem and recoup all of the overpayments from employees. Although this was not an ideal situation to have the Village Clerk performing payroll functions, given the circumstances, it was our only option at the time.

The draft audit report discusses the issues that have arisen through the use of manual receipt books. We completely agree with the Comptroller's findings and have taken steps to eliminate this concern. Any use of manual receipt books has been discontinued. In addition, there is far greater oversight by the current Treasurer in terms of the Village Clerk and account clerks making timely deposits of village funds, even though a board resolution had been adopted in early January 2015 regarding those responsibilities.

With regard to the draft audit report's concerns over the handling and management of water billing and how we plan to appropriately address those concerns. Firstly, a resolution for board consideration will be presented at the January 17, 2017 Board Meeting that lays out a strict policy for the frequency of actually versus estimated water meter readings. Once adopted, it will be discussed at length with not only the water department supervisor, but the entire water department staff in a formal meeting. As mentioned, the Village of Monticello is the recipient of a \$600,000 Water Meter Grant through the NYS Community Development Block Grant Fund. This grant award will allow the village to upgrade and install new water meters at a majority of parcels in the village and allows for the purchase of a software program that will allow the remote and real-time reading of all of the meters within the village. This will bring us into the 21st century and eliminate the need to manually access meters for actual readings. Both the account clerk who oversees water billing and the water department staff will receive manufacturer's training on how to utilize this software and create real-time reports that can be used for accurate and up to date accounting.

We also agree with the Comptroller's Office assertion that there needs to be a clearer delineation of the role of the Village Manager, especially with regard to the oversight of the Village Clerk and Village Treasurer. The current flow chart for village government is from the 1950's and fails in its ability to create a truly functional government. I am submitting a resolution for the adoption of an updated organizational chart for the January 17, 2017 Board Meeting that will address the proper chain of command and work flow structure for the village. While certain positions are exclusively appointments of the Mayor and Board of Trustees, if village government is to operate properly, it must rely on the oversight of the Village Manager for all daily functions and employees. All employees must have a level of accountability to the Village Manager, who is in turn wholly accountable to the Board of Trustees.

Succession planning and the cross-training of individuals, especially in the White Collar Unit, is essential to any municipality and is something duly noted in the Comptroller's Draft Report. It is certainly something that as a Village Manager, I recognize its need an importance and have always wanted to implement. Some of the larger obstacles to this kind of training is that there has: a.) historically not been defined policies and procedures in place to define job duties; b.) been a high rate of vacancy and turnover in key positions making it an impossibility; c.) the culture both from the top and from within has not historically been supportive of such actions or change. With the hiring of the current payroll clerk and a full-time clerk for the building department, we now have a full complement of village account clerks. The fact that we are taking steps to make both the wages and work environment better should allow for the longevity necessary to be able to implement succession and cross-training policies. We will be starting to train a second clerk (currently working in the building department) beginning January 17, 2017, so that she too is familiar with payroll functions and can appropriately fill the roll in case of vacancy or illness.

Finally, we are requesting further training and insight from the Comptroller's Office (and perhaps other state agencies) for elected officials so that they are clearly aware of their roles and responsibilities.

On behalf of the Board of Trustees we are taking steps to rectify each and every concern raised within this report. We look forward to working with you as we move forward.

Respectfully,

David A. Sager
Village Manager

APPENDIX D

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Village officials and employees to gain an understanding of Board oversight, the claims audit process, bank reconciliation process, water billings and collections, Clerk cash receipts, and succession planning. We also reviewed emails provided by Village officials to assess certain issues as well as the tone of the communications.
- We judgmentally selected 20 cash disbursements totaling \$8,500 from our cash disbursement data analysis for our scope period. In addition, we judgmentally selected all 20 cash disbursements totaling \$7,300 made to the Manager, Clerk, Treasurer and account clerks during our scope period. We also judgmentally selected an additional 11 cash disbursements totaling \$49,300 that did not appear on a Board-approved bill pay resolution report to determine if they were audited by the Board and a proper Village expenditure.
- We reviewed our last two audit reports dated 2012 and 2014 to determine if reported deficiencies were corrected. We also reviewed the last four CPA reports for 2011-12, 2012-13, 2013-14 and 2014-15 to assess if reported deficiencies were corrected.
- We judgmentally selected all bank reconciliations for the months of July 2015, November 2015 and February 2016 to evaluate whether they were completed accurately and in a timely manner.
- We judgmentally selected all 37 water billings that had the same reading (other than one) for all four quarterly billings from September 2015 to June 2016. Additionally, we selected all 97 water billings that had a reading of one for all four quarterly billings from September 2015 to June 2016.
- We reviewed three manual cash receipt books to assess whether they were used properly.
- We reviewed all 66 taxi license permits issued in 2015-16 to verify if the cash receipts were deposited timely per the Village's cash deposit resolution and if they were deposited in full.
- We judgmentally selected from each of the 13 departments, the largest gross bi-weekly payroll check to assess whether employees were paid accurately.

We conducted this performance audit in accordance with 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 E

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