



Village of Riverside Treasurer's Misappropriation of Funds

Report of Examination

Period Covered:

August 1, 2008 — September 27, 2013

2013M-349



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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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 Riverside, entitled Treasurer's Misappropriation of Funds. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Village of Riverside (Village) is located in the Town of Corning and has a population of about 500. The Village is governed by an elected Board of Trustees (Board), which is composed of a Mayor and four Trustees. The Board appoints the Clerk-Treasurer (Treasurer), who is the chief fiscal officer and Clerk of the Board. The Village's 2013-14 budgeted appropriations for all operating funds total approximately \$411,500, funded primarily with real property taxes, water and sewer rents, sales taxes and State aid.

Objective

The objective of our audit was to evaluate internal controls over the Village's financial operations for the period August 1, 2008 through September 27, 2013. Our audit addressed the following related questions:

- Did the Treasurer properly account for Village funds?
- Has the Board provided adequate oversight of the Treasurer's duties to safeguard Village assets?

Audit Results

Due to the Board's continuous lack of oversight over the Village's financial activities, the Treasurer was able to misappropriate as much as \$83,000 of Village funds prior to detection. The Board has not established written financial policies and procedures to safeguard assets, which allowed the Treasurer to perform all cash receipt and disbursements duties without oversight. Although the Board has adopted a procurement policy and reviewed each claim prior to payment, it did not ensure that the necessary supporting documentation was attached to the claims prior to approving them for payment. Even where a compensating control was implemented, such as a second signature on checks, it proved ineffective because the Mayor did not ensure that payments were valid.

The Board also assigned incompatible duties to the Treasurer and failed to implement oversight procedures that might have mitigated the related risk. The Treasurer is responsible for collecting, recording and depositing cash, recording disbursements, preparing abstracts, signing checks and reconciling bank accounts. The Board has not instituted sufficient compensating controls, such as Board review of financial reports, bank statements or reconciliations. Additionally, the Treasurer is solely responsible for entering water and sewer billing information, printing bills, collecting water and

sewer rents and recording and depositing all moneys without oversight from the Board. The Treasurer also adds new customers to the water billing program and makes adjustments to customer accounts without Board approval or review. Additionally, the Treasurer processes payroll, initiates electronic fund transfers and direct deposit transactions and prepares quarterly and annual payroll reports and wage statements.

On November 7, 2013, the Treasurer was arrested by the New York State Police on one count of Grand Larceny, 3rd degree, a class D felony and two counts of Falsifying Business Records, 1st degree, a class E felony.

Comments of Local Officials

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

Introduction

Background

The Village of Riverside (Village) is located in the Town of Corning and has a population of about 500. The Village is governed by a Board of Trustees (Board), which is composed of a Mayor and four Trustees, all of whom are elected for two-year terms. The Village provides water, sewer, snowplowing, brush removal and street maintenance to its residents. The Village's 2013-14 budgeted appropriations for all operating funds total approximately \$411,500, funded primarily with real property taxes, water and sewer rents, sales taxes and State aid.

The Board is responsible for the general oversight of the Village's operations. The Mayor is the chief executive officer. The Board is the legislative body responsible for managing Village operations such as establishing and monitoring a system of internal controls, adopting the annual budget, monitoring the finances and overseeing the work of department heads. Due to the limited amount of personnel, it is especially important for the Board to provide effective oversight to Village operations.¹

The Board appoints the Clerk-Treasurer (Treasurer), who is the chief fiscal officer (CFO) and Clerk of the Board. As the CFO, the Treasurer is responsible for the custody of all Village moneys, maintaining appropriate accounting records and preparing monthly and annual financial reports. Additionally, the duties of the Treasurer include processing payroll, and water and sewer user billing and accounting. Water and sewer user charges are billed every three months. As Clerk of the Board, the Treasurer is charged by Village Law with custody of the Village corporate seal, books, records and papers and all of the Board's official reports and communications and is responsible for keeping a complete and accurate record of the Board's proceedings.

Prior to the commencement of our audit, we were notified by the Mayor of a concern that the Treasurer had issued herself an IRS form W-2 in excess of the amount of her authorized salary. The Treasurer was terminated on February 13, 2013 and her duties were taken over by the Mayor and Deputy-Mayor with the assistance of a neighboring town's bookkeeper until another Treasurer was appointed on July 8, 2013.

Objective

The objective of our audit was to evaluate internal controls over the Village's financial operations. Our audit addressed the following related questions:

¹ The Village operates with one full-time and one part-time maintenance employee and one part-time Treasurer.

- Did the Treasurer properly account for Village funds?
- Has the Board provided adequate oversight of the Treasurer’s duties to safeguard Village assets?

Scope and Methodology

We examined internal controls over financial operations for the Village of Riverside for the period August 1, 2008 through September 27, 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 is included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated they were in the process of taking 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 Treasurer’s office.

Treasurer's Activities

It is essential that the Village establishes adequate internal controls over accounting activities to provide reasonable assurance that cash and other resources are properly safeguarded. Key accounting functions must be adequately segregated to the extent possible given the size and complexity of the Village's operations. When it is not feasible to adequately segregate accounting functions, the Board must implement compensating controls, such as increased oversight.

There was a complete lack of internal controls over the fiscal activities of the Village. The Treasurer is able to collect, record and deposit cash, record disbursements, prepare abstracts, sign checks and reconcile bank accounts without Board oversight. Additionally, the Treasurer was solely responsible for entering water and sewer billing information, printing bills, collecting water and sewer rents and recording and depositing all moneys, also without Board oversight. The Treasurer also added new customers to the water billing program and made adjustments to customer accounts without Board approval or review. Finally, the Treasurer processed payroll, initiated electronic fund transfers and directed deposit transactions and prepared quarterly and annual payroll reports and wage statements. This continuous lack of oversight created a weak control environment that allowed the Treasurer to misappropriate as much as \$83,000 of Village funds.

Misappropriation of Village Funds

Local government officers, whether elected or appointed, act as public servants and are responsible for carrying out the functions of their positions in a forthright and honest manner. The Treasurer, as the Village's CFO, is responsible for the receipt, disbursement and custody of all Village moneys.

A complete lack of internal controls over the Village's fiscal activities allowed the Treasurer to process payroll, make purchases, pay bills, write checks and collect and deposit moneys with no Board oversight. This created an environment where the Treasurer was able to initiate transactions outside of her authority and the normal Village business cycle without detection. The Treasurer exploited the lack of controls and was able to pay herself excessive amounts through the payroll process. The internal control weaknesses also allowed for the misappropriation of water and sewer rents and other miscellaneous revenues, as well as the inappropriate use of Village credit cards.

In total, the Treasurer was able to misappropriate as much as \$83,000 of Village funds during her employment.² In a September 27, 2013 statement to Office of the State Comptroller (OSC) personnel, the Treasurer confirmed that she used Village funds for personal expenses. This misappropriation of Village funds has been referred to law enforcement officials for investigation and resulted in the Treasurer's arrest on November 7, 2013.

Payroll—The Board assigned incompatible duties to the Treasurer and failed to implement oversight procedures that might have mitigated the related risk.³ The Treasurer controlled the Village's accounting records, handled the Village's banking and processed the Village payroll, including her own compensation, with no independent review or oversight. Further, she was allowed to perform bank reconciliations with no independent review. As a result, the Treasurer was able to misappropriate \$40,846 through payroll distributions.

During the audit period, the Treasurer received a Board-approved salary for her work as the Village's Treasurer. On June 20, 2011, the Village entered into an intermunicipal agreement with the Town of Corning (Town) for shared time of the Treasurer.⁴ This memorandum of understanding (MOU) resulted in a one-third reduction of the Treasurer's salary and hours worked for the Village.

We reviewed payroll distributions to the Treasurer from her hire date in August 2008 through termination in February 2013. We identified that the Treasurer failed to pay herself at the correct rate of pay after taking into consideration both her Board approved salary and the MOU with the Town. From 2008 to 2013, the Treasurer's Board authorized salary totaled \$101,257; however, the Treasurer paid herself \$115,268 in salary during that time period. The excess, \$14,011, resulted because, in September 2011, the Treasurer reverted to paying herself for 30 hours of work instead of the 20 hours she was authorized to work after the MOU went into effect.⁵ In addition to these overpayments for unauthorized hours, the Treasurer paid herself \$26,835 of unsupported payroll-related payments. These unsupported payments consisted of one physical check and 31 direct deposits, which were deposited into two personal bank accounts of

² The Treasurer was appointed on August 8, 2008 and removed from office on February 13, 2013.

³ The sole mitigating control required all Village checks to have dual signatures by a combination of the Treasurer, Mayor or Board member. In practice, this proved to be an ineffective control.

⁴ We performed limited procedures at the Town to determine the risk of misappropriation or theft by the Treasurer during her employment at the Town. We determine the risk to be low as she only performed bookkeeping services for the Town Supervisor.

⁵ Village officials informed us that Village offices were only open for 20 hours per week from the time the MOU went into effect.

the Treasurer. These unsupported payments were disbursed along with her weekly paycheck from the Village's bank account used for payroll related expenditures and were in the amount of her weekly pay or double that amount. None of these payments were Board authorized or had supporting documentation.

During the September 27, 2013 interview with the Treasurer, she stated that no one noticed the pay increase. She also confirmed that she initiated these transfers and had the funds deposited directly into her two personal accounts. Table 1 details the payments the Treasurer made to herself for salary and unsupported payments during the audit period:

Table 1: Salary and Additional Payments					
Fiscal Year	Board-Authorized Salary Received	Unauthorized Salary Received	Unsupported Payments	Total Unauthorized Salary and Unsupported Payments	Total Amounts Received
2008-09	\$15,538	\$0	\$0	\$0	\$15,538
2009-10	\$22,000	\$0	\$27 ^a	\$27	\$22,027
2010-11	\$29,000	\$0	\$0	\$0	\$29,000
2011-12 ^b	\$20,488	\$6,989	\$512 ^c	\$7,501	\$27,989
2012-13	\$14,231	\$7,022	\$26,296	\$33,318	\$47,549
Total	\$101,257	\$14,011	\$26,835	\$40,846	\$142,103

^a Incorrectly calculated retirement contribution reimbursement
^b MOU was initiated after first three payrolls of fiscal year.
^c Amount consists of the one additional physical check

The Mayor signed all of the unauthorized payroll checks and one unsupported payment check without either ensuring that the proper rates of pay were paid or certifying the payrolls as required. The Treasurer was able to process the unsupported direct deposits because the Board didn't require the bank to obtain any prior authorization. In addition, the Board failed to ensure that adequate internal controls and segregation of duties were in place over the payroll process. Specifically, the Board failed to ensure that payroll distributions were in line with authorized salaries or to ensure that someone other than the Treasurer prepared or reviewed bank reconciliations.

As a result, the Treasurer was able to misappropriate \$40,846 through the payroll process. Had the Board reviewed monthly payroll reports and bank statements and the Mayor adequately reviewed and certified payrolls, the Treasurer may not have attempted this theft, or it may have been prevented or detected in a timelier manner. Also, if the Mayor had properly reviewed payrolls, it likely would have had a deterrent effect and prevented the Treasurer from attempting this theft of Village money or the theft would have been detected in a timely manner.

Revenue Collection — The Treasurer collects Village revenues such as water and sewer rents, State aid, property taxes, Village hall rentals and landfill tickets. The Village accepts cash, check or money order payments through the mail or over-the-counter at the Village hall. General Municipal Law requires the issuance of a numbered duplicate receipt where no other satisfactory evidence for audit purpose is available.

The Treasurer's duties concentrated the key responsibilities of billing, collecting and depositing revenues and recording their related transactions. This concentration of duties and the absence of Board review and oversight increased the risk that errors or irregularities would occur and remain undetected. We found that the Treasurer took advantage of these weaknesses to divert Village revenues to her own benefit.

- **Water and Sewer Receipts:** According to Village water and sewer procedures, billings occur quarterly⁶ with penalties applied after 20 days of nonpayment. The Treasurer is responsible for ensuring penalties and payments are applied appropriately to customer accounts, entering proper usage provided from the water and sewer meter readers and ensuring that all customer accounts are kept up-to-date. The Board is responsible for reviewing the Treasurer's activities to ensure that customers are billed appropriately and at authorized rates, account adjustments are authorized and justified, receipts are collected and deposited timely and any customer accounts unpaid at the end of the fiscal year are properly relieved on the County tax bills.

Billing adjustment procedures should, at a minimum, require that a designated official not involved in the collection and recording of these charges approve each adjustment and adequately document the origination, justification, amount and date it was approved. However, the Board did not establish adequate billing adjustment procedures. As a result, the Treasurer made adjustments to customer accounts using her own discretion and without prior written authorization limits or independent review. These weaknesses allowed the Treasurer to adjust customer accounts to show no balance was owed and no money received.

We found that the Treasurer made 497 noncash adjustments⁷ to water and sewer customer accounts during her tenure with

⁶ Billings occur in January, April, July and October.

⁷ Noncash adjustments are any adjustments made to a customer's account that do not have a corresponding deposit (negative adjustment) or refund associated (positive adjustment). These adjustments should be made only in rare instances and should be supported by documentation and proper authorizations.

a net total negative adjustment of \$458,872. We determined 78 of the 497 noncash adjustments with a net total negative adjustment of \$423,927 were to correct errors, such as incorrect meter readings and duplicate cash receipt postings. The remaining 419 unexplained noncash adjustments consisted of 402 negative and 17 positive noncash adjustments totaling \$35,881 and \$936 respectively.

We reviewed all 228 customer accounts for 2012 and identified 130 negative noncash adjustments made by the Treasurer totaling \$11,690. We issued confirmations⁸ to 31 customers whose accounts had 100 of these negative adjustments applied, totaling \$9,319. We received confirmations from 26 of the 31 customers whose payments totaled \$8,385. All 26 customers stated they paid cash for their 2012 quarterly bills.⁹ There was no evidence that these receipts were deposited into the Village's bank accounts or recorded as cash receipts in the accounting records. Instead, the Treasurer made 94 noncash adjustments totaling \$7,595 to these 26 customers' accounts in an attempt to cover the theft.

We analyzed the composition of Village bank deposits and found that the amount of cash deposited for water and sewer rents decreased considerably to the point that no significant cash was deposited during 2012. Further, after the Treasurer was terminated, the amount of cash deposited grew from 0 percent to 9 percent of the total amount deposited. The lack of cash deposited coincided with an increase in the total of the negative adjustments.

Year	Total Billed	Total Deposited	Total Cash Deposited	Cash Percentage Deposited	Total Unexplained Negative Adjustments
2008	\$99,759	\$100,740	\$7,135	7%	(\$94)
2009	\$87,400	\$88,097	\$4,190	5%	(\$5,619)
2010	\$104,229	\$99,082	\$4,105	4%	(\$8,424)
2011	\$121,152	\$108,358	\$4,000	4%	(\$5,925)
2012	\$118,165	\$99,118	\$37	0%	(\$11,690)
2013 ^a	\$94,117	\$85,367	\$7,615	9%	(\$4,129)
Total					(\$35,881)

^a Totals for first three billing cycles

⁸ The confirmations detailed the quarterly amounts billed to them for 2012 and that a customer payment had not been recorded.

⁹ Generally, receipts were not issued for payments made, but customers' postcard bills were marked paid.

Because of the conditions we encountered, including the large number of noncash adjustments, the lack of Board oversight and effective internal controls, the analysis of cash deposited and the response to our confirmations, all of the unexplained negative adjustments could have been part of the Treasurer's scheme to disguise her misappropriation. As a result, the Treasurer misappropriated water and sewer rents of up to \$35,881.

During our September 27, 2013 interview with the Treasurer, OSC personnel showed the Treasurer all of the noncash adjustments and stated that they were able to confirm some of the adjustments were for cash payments. The Treasurer confirmed that she took the cash payments from water and sewer billings, but she did not recall how much.

- **Other Revenues:** The Village accepts cash, check or money order payments for property taxes, Village hall rentals and landfill tickets through the mail or over-the-counter at the Village hall. According to the Board-approved hall rental procedures, the Treasurer is to issue a manual pre-numbered cash receipt to the customer from the Village receipt book. The informal landfill ticket procedures provide for the Treasurer to list the landfill ticket number purchased and the customer to sign and write their address on the County log sheet that is remitted to the County.

We found that the Treasurer controlled all phases of the cash-receipt transactions related to these other revenues. The Treasurer collected cash, issued receipts, recorded transactions and deposited funds. In addition, there was never any reconciliation of cash collections with supporting documentation by the Treasurer or Board to ensure that all moneys collected were properly supported, recorded and deposited into Village funds. Further, we found that the Treasurer sporadically used manual cash receipts from multiple Village receipt books. There is no inventory of the receipt books used and some receipt books were missing. As a result, we reviewed cash collections for Village property taxes, hall rentals and landfill tickets.¹⁰ Property taxes and State aid were generally collected and deposited without significant errors at the Village. However, we identified \$90 in cash missing from Village hall rental collections and an additional \$240 in cash missing from landfill ticket collections. In addition, we could

¹⁰ We reviewed landfill tickets totaling \$2,520, and property taxes totaling \$143,808 for the 11-12 and 12-13 fiscal years. We reviewed hall rentals totaling \$2,690 for the period January 2012 through February 2013.

not account for landfill tickets valued at \$530. During our September 27, 2013 meeting with the Treasurer, she admitted to taking the cash from the landfill tickets.

Credit Cards — We identified three Village credit cards that the Treasurer had access to.¹¹ We reviewed all credit card purchases made utilizing these credit cards during the Treasurer’s tenure at the Village and identified inappropriate personal purchases and related fees totaling \$5,000 which were made using two of the credit cards. We determined the Village paid for \$783 of these inappropriate purchases.

During the period September 2009 through December 2012, there were 46 purchases made using the Visa credit card totaling \$3,815 and \$365 in late fees and finance charges. We determined that 17 of the 46 purchases totaling \$733 were legitimate Village purchases. However, we identified that 28 purchases totaling \$2,382 were inappropriate personal purchases, which included items such as clothing, a white water rafting trip, personal cell phone expenses, Paypal,¹² and online dating services. There was also one questionable purchase made at a local electronics store totaling \$700. We found that the Village made eight payments by check to the Visa account totaling \$2,034 and there were 15 cash payments totaling \$2,146 that were not made with Village funds. After taking into account these payments, we identified an unreimbursed balance of \$601 for inappropriate personal purchases on the Visa card account.

During the period March 2010 through December 2012, there were 10 purchases totaling \$2,525 made on the membership-only retail store card account and \$860 in late fees and finance charges. We obtained statements directly from the vendor, which detailed each item purchased with the store card. We identified supplies totaling \$272 that could be for legitimate Village purposes. The remaining items purchased, including tax, totaling \$1,393, were for groceries and a GPS. We identified two payments made by the Village to the vendor totaling \$453. After taking into account these payments, we identified an unreimbursed balance of \$182 for inappropriate purchases on the membership-only retail store account.

The Treasurer confirmed the use of these credit cards for her personal use as described above during our meeting on September 27, 2013. In addition, she stated that the late fees and finance charges occurred because she was unable to pay the balance due each month.

¹¹In September 2009, a credit card was opened through a local bank with authorization by the Mayor with a credit limit of \$1,000. In March 2010, the Treasurer opened a credit card at a membership-only retail store without Board authorization with a credit limit of \$1,000. There was also a credit card for a home improvement store, for which our testing did not reveal any inappropriate purchases.

¹²The Treasurer stated the Visa card was linked to her personal Paypal account to make purchases.

Payments to Husband

Payments to individuals who are not employees are processed using a claim voucher. While all vouchers should be scrutinized to ensure the claims are legitimate, it is especially important in instances where the Treasurer is in a position to pay a claim that could benefit her. Internal Revenue Service (IRS) Form 1099-MISC must be issued to individuals who are not employees when they are paid at least \$600 for services. The Village should also have the individual prepare IRS Form W-9 to collect appropriate tax documentation, including the individual's taxpayer identification number. In the absence of a taxpayer identification number, the payments would be subject to backup withholdings. As the CFO, it would be the Treasurer's responsibility to both write the check and to see that tax reporting is properly prepared and withholdings made.

The Treasurer's husband at that time was paid for work performed at the Village from 2009 through 2011. The payments were based on a voucher prepared by the Treasurer and not through the payroll process. The vouchers generally described a task, a lump sum of hours worked, dates worked and a rate of pay. Although the Mayor signed the vouchers generally as the authorized department official, he informed us he was not certain when the individual worked, that the tasks were completed or how long it took to accomplish them. There also was no process to ensure that proper tax reporting was completed.

We identified 33 vouchers paid to this individual totaling \$9,636. In two of the three years that services were provided, this individual received payments in excess of \$600. However, the Village did not issue Form 1099-MISC for those years and had no Form W-9 on file or another means to document the individual's taxpayer identification number.¹³ The Village also neglected to make withholdings from these payments. Table 3 details the payments to the Treasurer's husband:

Calendar Year	Amount
2009	\$352
2010	\$1,456
2011	\$7,828
Total	\$9,636

While interviewing the Treasurer and reviewing her payroll information we learned that her husband was collecting disability at that time and that she was taking advantage of the Advanced Earned Income Credit, which allows a tax credit for individuals whose annual household income is below a specific dollar threshold set by the IRS. By not issuing a Form 1099, the Treasurer and spouse may have been

¹³According to the Mayor on September 30, 2013, the Village has been in contact with the IRS to file 1099s for this work.

able to underreport income earned in order to take advantage of credits and benefits not otherwise allowable.

The failure to ensure the proper reporting of these payments has potentially left the Village liable for interest and penalties and potentially allowed the Treasurer to receive the advantage of benefits she was not entitled to. This information is being referred to the appropriate governmental agencies for further investigation.

Accounting Records and Reports

The Village's financial records and reports must be complete, accurate and up-to-date to be useful for managing Village operations. The Treasurer, as CFO, is responsible for performing basic accounting functions, including maintaining accounting records, providing financial reports to the Board and outside entities and performing monthly bank reconciliations to ensure the timely identification and resolution of differences between cash balances per the Village's records and the bank statements. The lack of current and accurate accounting records and reports can compromise internal controls and make hiding fraudulent activity easier.

The Treasurer failed to ensure that the Village's accounting records were complete, accurate, up-to-date and reconciled to bank balances. In fact, the Treasurer did not perform any formal bank reconciliations. The Treasurer also failed to properly report and remit retirement and payroll withholdings to state and federal agencies, although they were withheld from employees' paychecks. Further, employees were not accurately accounted for in the State Employees' Retirement System and information had to be reconciled and corrected during our audit. Additionally, the Treasurer did not provide the Board with timely or accurate reports, which significantly limited their ability to monitor Village financial activities. Finally, the Treasurer failed to file the 2011-12 annual update document (AUD) and 2012 property tax cap computation¹⁴ with OSC. The Village received four delinquent letters in response to the AUD and a delinquent letter for the property tax cap.

While on site, OSC assisted the Village in identifying correcting entries for the accounting records due to incomplete Treasurer records and the misappropriation of funds, closing the 2012-13 accounting records and completing and filing the 2011-12 and 2012-13 AUD and 2013 property tax cap computations.¹⁵

¹⁴ In 2011, the State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap, that restricts the amount of property taxes local governments can levy. Under this legislation, the property tax levied annually by local governments generally cannot increase more than 2 percent or the rate of inflation, whichever is lower, with some exceptions. Local governments are permitted to override the levy limit if certain actions are taken. The law became effective for fiscal years that begin in 2012.

¹⁵ We determined the 2013 Village property tax levy exceeded the tax cap limit by approximately \$6,600. The excess levy for 2013 must be set aside in a reserve and used to offset the 2014 tax levy.

The condition of the records and the lack of reporting aided the Treasurer's misappropriation of Village funds by denying important information to the Board, OSC and the public.

Recommendations

1. The Board should take appropriate action to recover all misappropriated moneys.
2. The Treasurer should:
 - Only make Board-authorized payments with supporting documentation
 - Issue a duplicate receipt as required
 - Ensure tax reporting and withholdings are accurate and complete
 - Maintain complete, up-to-date and accurate accounting records
 - Prepare timely bank reconciliations and compare the adjusted balances to the accounting records
 - Provide monthly financial reports to the Board that include a list of all moneys received and disbursed, budget-to-actual comparisons, fund balance amounts and reconciled cash balances for each fund
 - Prepare the Village's property tax calculation and ensure it is accurate and
 - File the Village's AUD with OSC within 60 days of the close of the fiscal year.
3. The Mayor should:
 - Ensure that the payroll amounts are appropriate prior to certification
 - Ensure that services are performed prior to approving vouchers for payment
 - Contact the bank to stop the practice of allowing the Treasurer to make electronic disbursements and
 - Review all non-cash adjustments for proper supporting documentation prior to authorizing them.

Board Oversight

The Board is responsible for overseeing the Village's financial affairs and safeguarding its resources. These duties include establishing a system of internal controls to provide reasonable assurance that cash and other Village resources are properly safeguarded, transactions are authorized and properly recorded and financial reports are accurate and reliable. The Board must ensure either that no individual controls all aspects of financial transactions, or it must implement compensating controls to mitigate risks. In order to achieve these responsibilities, the Board must adopt appropriate policies and procedures, ensure financial reporting requirements are completed and reviewed and perform, or provide for, an annual audit of the Treasurer's records and reports.

The Board did not exercise appropriate oversight of the Village's financial activities. The Board has not established written financial policies and procedures, which allowed the Treasurer to perform all cash receipt and disbursements duties without oversight. Although the Board has adopted a procurement policy and reviewed each claim prior to payment, it did not ensure that the necessary supporting documentation was attached to all claims prior to approving them for payment. Where a compensating control was implemented, such as the second signature on checks, it proved ineffective because the Mayor did not ensure that payments were valid, making the second signature pointless. As a result, inappropriate personal purchases were made using the Village's credit cards and additional improper payroll payments were made to the Treasurer. Also, the Board did not require financial reports and documentation needed to monitor operations. The Board's failure to establish an effective system of internal controls to ensure that all transactions were properly recorded and reported by the Treasurer severely limited its ability to monitor Village operations. As a result, the Treasurer was able to conceal the misappropriation of Village assets without the Board's detection.

Policies and Procedures

Written policies are a key component of an organization's internal control environment, as they formally establish and communicate to staff the manner in which to conduct the day-to-day operations of the organization. Written policies and procedures also provide reasonable assurance that Village assets are adequately safeguarded and provide evidence of management's priorities, its values and its commitment to internal controls. Clearly defined and communicated authorizations can help establish a substantial framework of internal controls. Finally, Village officials are responsible for developing written procedures to implement the policies adopted by the Board.

These written procedures must adequately segregate incompatible duties so that no one individual is responsible for most or all key aspects of a transaction and include periodic reviews of the work completed by employees.

The absence of the following policies and procedures allowed the Treasurer to operate without effective oversight and contributed to the poor control environment.

Payroll Processing — Payroll processing policies and procedures should describe employee responsibilities in preparing and disbursing payroll and provide written authorization for salaries, wages and fringe benefits. If it is not feasible to segregate duties over the payroll process, Village officials must implement mitigating controls, such as having someone independent of the process perform a review of and certify the completed payrolls. Payroll policies, collective bargaining agreements and/or individual employee contracts must stipulate each employee's entitlement to the accrual, use and payment of leave time.

The Board has not established any written payroll policies or procedures that describe employee responsibilities when preparing, approving or disbursing payroll. As a result, the Treasurer had incompatible duties within the payroll process that were exploited, without being detected. The Treasurer handled all aspects of the payroll process, including adding and deleting employees; entering salary amounts, pay rates and hours worked into the payroll software; preparing weekly payrolls; transferring funds to and from bank accounts; preparing and distributing paychecks; and reconciling bank accounts. Although the Mayor signed the weekly payroll checks, he did not ensure that the proper rates of pay were paid or certify the payrolls. If the Mayor had properly reviewed payrolls, it is likely it would have either had a deterrent effect and prevented the Treasurer from attempting this theft of Village money or the theft may have been detected in a timely manner. Furthermore, the Board didn't require the bank to obtain prior authorization for any electronic fund transfers. As a result, the Treasurer was able to misappropriate \$40,846 through the payroll process for her personal benefit.

Cash Receipts and Disbursements — Cash receipt and disbursement policies and procedures must adequately address issues such as the responsibilities for collecting, recording and depositing cash; issuing duplicate receipts whenever other evidence of receipt is not available; disbursing of Village money by check; prescribed procedures for executing wire transfers; and the segregation of duties, so that someone other than the person receiving and recording cash receipts and disbursements is responsible for reconciling bank accounts or preparing and making bank deposits or cash disbursements. When it

is not practical to segregate duties because of limited staff resources, the Board must establish compensating controls.

An adequate system of internal controls must also provide for the timely identification of errors and/or irregularities which may have occurred so that corrective action can be taken. Once established, the Board has the responsibility to ensure that these controls are routinely monitored to determine whether they are operating properly.

The Village's internal controls over cash receipts and disbursements were not appropriately designed or operating effectively. With the exception of hall rentals, we found that the Board has not adopted any policies and procedures over cash receipts and disbursements. Furthermore, the Board's approved procedures over hall rentals have not been updated since 2002. These weaknesses allowed the Treasurer to misappropriate cash collected for Village hall rental and landfill tickets.

Water and Sewer User Charges — User charge policies and procedures should provide guidance for individuals involved in billing customers, collecting and depositing moneys received, adjusting customer accounts and reconciling outstanding user charges between control account balances and detail accounting records. It is essential that these policies and procedures require sufficient support and documentation for any entries adjusting water and sewer accounts at the individual customer account level or in total at the overall Village-wide level. It is important to maintain documentation of the adjustments. It is also important for the Mayor or other designated officials to periodically review the adjustments to prevent fraud or error. The Board also must provide sufficient oversight of those employees involved in these processes.

The Board did not have comprehensive written policies and procedures to provide adequate guidance and internal controls over water and sewer user charges and provided only minimal oversight. As a result, we identified internal control weaknesses in the Village's billing procedures, account adjustments, deposits and the reconciliation process for water and sewer user charges. Specifically, adjustments were made to customer accounts with no support for the changes or approval, collection dates for cash receipts were not documented, deposits were not made intact and no one is performing a reconciliation of the water and sewer billing control accounts with the detailed records. These weaknesses allowed the Treasurer to misappropriate water and sewer user charges paid in cash and cover the theft by making adjustments to customer accounts.

Credit Card Policy — At a minimum, a sufficient credit card policy establishes guidelines for card use and procedures for monitoring

usage. To retain a reasonable level of control over credit card purchases, policies should specify authorized users, define dollar limits for purchases, describe the types and circumstances of purchases allowed, specify the prior approval and documentation needed to support purchases and specify security procedures for the credit cards when not in use.

The Board did not adopt a comprehensive credit card policy. The Village had two major credit cards, one of which was obtained without the Board's knowledge. The cards were in the custody of the Treasurer and regularly used to purchase items that appeared to be inappropriate for Village use. The Village also had two credit cards with a local home improvement company, one of which was in the name and custody of the Treasurer.

The Board's failure to adopt a comprehensive credit card policy and to monitor credit card usage by requiring adequate supporting documentation for all credit card purchases prior to approving payment resulted in inappropriate personal charges totaling \$5,000 and another questionable purchase totaling \$700. Furthermore, the Board's failure to reconcile Village credit cards and ensure that these cards were secured when not in use allowed misappropriation of Village resources to occur that can ultimately affect the Village's credit worthiness.

Financial Oversight

The Board needs complete, accurate and current financial reports to effectively oversee the Treasurer's performance, to monitor the Village's financial operations and to make informed decisions in preparing the annual budget, monitoring revenues and expenditures, modifying the budget during the fiscal year and ensuring compliance with the property tax cap. In addition, local governments are required by law to annually complete and file with OSC an AUD, which is a detailed report of all financial activity for the preceding year. The AUD is an important document that allows the Board and the general public to assess the Village's financial operations and financial condition.

The Board did not receive monthly financial reports from the Treasurer because it had not established fiscal policies to address the frequency and content of interim financial reporting, nor did it require the Treasurer to prepare any such reports. In addition, the Board did not require or review any bank reconciliations. Finally, the Board did not establish procedures to ensure the Treasurer completed and submitted the AUD to OSC by the deadline in the prescribed format. As a result, the Board was unaware that the 2011-12 AUD was not filed and that the 2013 budget had exceeded the tax cap limit by approximately \$6,600 (8.9%). More importantly had the Board

received adequate reports, it would have seen that bank balances did not reconcile with the accounting records and potentially identified the misappropriations occurring through the various Village operations.

The lack of adequate monthly reporting diminished the Board's ability to monitor and manage Village financial resources and to protect taxpayers from excess taxation and allowed errors and irregularities to occur and go undetected and uncorrected.

Annual Audit

Village Law requires the Board to annually audit, or have a Village officer, employee or an independent public accountant audit, the financial records of the Treasurer. This annual audit provides an independent verification that transactions have been properly recorded and that cash has been properly accounted for. It also provides Board members with assurance that the financial records and reports contain reliable information on which to base financial decisions.

The Board did not perform annual audits of the records and reports of the Treasurer. The Board's failure to perform an annual audit diminishes its ability to monitor the Village's financial operations. If the Board had performed this fundamental duty, it may have discouraged the commission of the irregularities that did occur or could have detected them at an earlier time.

Recommendations

4. The Board should:

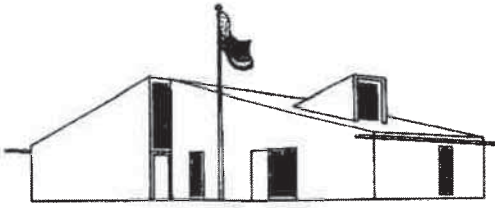
- Ensure that the Treasurer's activities are properly segregated. Where this is not feasible, compensating controls should be implemented.
- Implement comprehensive policies and procedures over payroll, including adequate certification controls and reconciliation of payroll accounts
- Develop policies and procedures that safeguard cash receipts. These policies and procedures, among other things, should address the segregation of duties, holding individual employees accountable for collections made, and should detail which reports will be printed and maintained to adequately verify amounts collected.
- Develop policies and procedures for water and sewer user charges, including requiring prior approval for adjustments, write-offs or refunds and maintaining adequate supporting documentation
- Adopt a comprehensive credit card policy and review and update the policy annually. The credit card policy should:

- o Include procedures for the opening and closing of credit cards,
 - o Identify all authorized users and set appropriate limits,
 - o Establish custody of the cards when not in use,
 - o Require the reconciliation of credit card purchase documentation to statements and the pre-approval of any purchases,
 - o Establish a means to recoup any unauthorized expenditures and
 - o Ensure the proper segregation of duties.
- Require the Treasurer to provide monthly financial reports that include a list of all moneys received and disbursed, budget-to-actual comparisons, fund balance amounts and reconciled cash balances for each fund. The Board should use these monthly reports to monitor actual results against the adopted budget and provide oversight of the Village's financial operations and the accuracy of its records.
 - Calculate the Village's annual property tax cap limit in a timely manner and ensure that the Village submits the property tax cap filing to OSC in a timely manner
 - Implement fiscal policies to ensure that the Village's accounting records, as maintained by the Treasurer, are complete, accurate and up-to-date and
 - Ensure that an annual audit of the Treasurer's annual financial report and supporting records is performed, as required by the Village Law, or engage the services of a certified public accountant or public accountant to conduct the audit.
5. The Treasurer should file the Village's AUD with OSC within 60 days of the close of the fiscal year.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



VILLAGE OF RIVERSIDE, NEW YORK
35 STANTON STREET, PAINTED POST, N.Y. 14870-1499

February 20, 2014

Edward V. Grant, Jr. Chief Examiner
Office of the State Comptroller
The Powers Building
16 W. Main Street, Suite 522
Rochester, NY 14614

RE: Misappropriation of Funds by the Village of Riverside Clerk

To Whom It May Concern:

In response to the Draft Audit dated January 23, 2014, the Village of Riverside Board is in agreement with the audit findings, with some minor exceptions. These issues were discussed with the auditor's meeting with the Village Board and the auditors helped us understand the justification of their findings. The one finding that we strongly disagree with is the statement on pg. 14, paragraph two. When the Mayor signed the vouchers, he clearly knew when the individual worked, and what work was accomplished at the time he signed the voucher. When the auditors asked that question during the audit, four years had passed, and the Mayor couldn't respond in detail at that time.

In conjunction with the audit, it should be noted that the Mayor and the Village Board have been working to correct the inadequacies noted in the draft audit.

As stated in my letter dated December 5, 2013, we again want to thank the State Comptroller's office for the audit conducted for the Village of Riverside. We appreciate the guidance offered in the audit to make improvements in our processes and procedures. The village has already demonstrated our commitment by the following actions:

- AUD's are up to date
- Audit forms have been and continue to be developed
- Tax Cap has been prepared
- Tax Cap reserve has been established
- Law enforcement has been contacted and we continue to follow up for recovery of funds. The Village of Riverside is pursuing every avenue possible to recoup the money that the former clerk absconded from the village.

Sincerely,

William J. Cornell
Mayor
Village of Riverside

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The Village was selected for audit after OSC was notified by Village officials of irregularities with the Treasurer's annual wage statement. Our audit commenced following an initial risk assessment that found weak internal controls over cash transactions, inadequate or missing documentation and poor Board oversight.

During this audit, we examined the records and reports of the Village Treasurer for the period August 1, 2008 through September 27, 2013. To accomplish the objective of this audit and to obtain valid audit evidence, our procedures included the following:

- We interviewed Village officials and reviewed Board minutes to gather information about the Village's policies and procedures related to cash receipts, cash disbursements and payroll. We also gathered information about procedures used to prepare and approve claims and process payroll.
- We reviewed the Treasurer's accounting records and reports to determine if the records were complete, accurate and up-to-date. We also determined if proper bank reconciliations were performed and if sufficient financial reports were prepared and filed as required.
- We traced all cash receipts during our audit period from source documentation to bank statements to determine if all receipts were deposited into Village bank accounts. We also traced all bank account transfers listed on bank statements to supporting documentation to verify their propriety.
- We traced all payroll disbursements from the Village's payroll accounts to the Treasurer's payroll records.
- We traced all canceled check images from the Village's operating accounts that were cleared by the bank during our audit period from the Village's bank statements to the invoices/claims to determine if there was an indication that all claims were presented to and audited by the Board.
- We reviewed credit card purchases made on Village issued credit cards during the scope period and reviewed supporting documentation for purchases.
- We reviewed billed receivables and related adjustments for the water and sewer accounts during the scope period.
- We requested the compositions of bank deposits made from August 2008 through May 2013. We performed a cash trend analysis of cash being deposited.
- We contacted residents to confirm information in the Village's records including sewer and water charges.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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