

Village of Waterford

Board Oversight

JULY 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Village of Waterford

Audit Objective

Determine whether the Village of Waterford (Village) Board (Board) provided adequate oversight of financial operations.

Key Findings

The Board did not provide adequate oversight of financial operations. Specifically, the Board did not:

- Establish compensating controls to address the lack of segregation of the Treasurer's duties.
- Request or receive adequate monthly reports from the Treasurer to adequately monitor operations, or ensure bank reconciliations were properly prepared, retained and reviewed.
- Ensure all claims paid in advance were for allowable purposes, audit claims paid in advance of audit at the next regular Board meeting, or ensure annual audits were conducted in a timely manner.

Key Recommendations

- Establish sufficient compensating controls, including periodically reviewing bank statements and properly prepared bank reconciliations.
- Ensure the Treasurer provides adequate monthly financial reports to the Board.
- Ensure the Treasurer pays only those claims before Board audit and approval that are allowed to be paid in advance and audit such claims at the next regular Board meeting.

Except as specified in Appendix A, Village officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on issues raised in the Village's response letter.

Background

The Village is located in the Town of Waterford in Saratoga County. The Village provides various services to its residents including street maintenance and improvements, snow removal, fire protection, recreation services and general government support.

The Village is governed by an elected Board composed of a Mayor and four trustees. The Board is responsible for the general management and control of finances and operations. The Mayor is the chief executive officer.

The Board-appointed Treasurer is the chief fiscal officer and custodian of all funds, responsible for receiving and disbursing money, maintaining accounting records and preparing monthly and annual financial reports.

Quick Facts

2021-22 Appropriations	\$1 million
Population	2,038
Employees	13 part-time
Unaudited Claims Paid During the Audit Period	\$212,232

Audit Period

June 1, 2020 – February 28, 2022

Board Oversight

How Should a Board Monitor Village Operations?

A board is responsible for overseeing a village's financial operations and safeguarding its resources. This requires establishing an internal control system that provides adequate segregation of duties so that one individual does not control all phases of financial transactions. Specifically, one individual should not have the ability to authorize, execute and record a transaction or control the entire cash collection and disbursement processes.

When it is not practical or cost effective to segregate financial duties, a board must ensure compensating controls are in place. Compensating controls include establishing oversight procedures designed to reduce the risk of errors or irregularities occurring and remaining undetected. These controls include routinely reviewing work performed by individuals who maintain custody of assets and who approve or record transactions affecting those assets.

In addition, it is essential that a board receives regular financial reports from the treasurer to fulfill its responsibility of monitoring financial operations. Financial reports should include reconciled cash balances for each fund and comparisons of actual revenues and expenditures to amounts estimated in the annual budget (budget status reports). Providing budget status reports to a board allows for timely corrective action to be taken as needed to address unfavorable variances that require budget amendments.

Reconciling bank account balances with the accounting records is essential to allow village officials to determine whether financial transactions are accurately recorded in a timely manner. Monthly bank reconciliations provide a way for officials to identify, correct and document differences between a village's records and bank transactions. In addition, someone independent of recording receipts, disbursements and journal entries should perform or, at a minimum, review bank reconciliations.

The Board Should Improve Oversight of Village Operations

The Board did not segregate the Treasurer's duties or ensure sufficient compensating controls were in place to oversee his work. The Treasurer performs all functions of the financial and recordkeeping duties, including recording transactions, preparing and signing checks for claim payments, executing bank transfers, processing payroll and reconciling bank accounts. While the Board approves bank transfers and audits monthly claims, the Treasurer performed the other duties without any review. In addition, no one received or reviewed bank statements, cancelled check images or bank reconciliations to help minimize risk of unauthorized transactions, such as unaudited claims being paid, or other errors or irregularities occurring and remaining undetected. The Mayor stated that limited staff prevented the Village from adequately segregating these duties but did not

provide any reasonable explanation for the lack of review over the Treasurer's work.

Although we did not identify any significant discrepancies during our audit testing, a lack of segregation of duties without compensating controls increases the risk that errors and/or irregularities could occur and remain undetected and uncorrected.

The Board Did Not Request Adequate Monthly Financial Reports to Monitor the Budget

The Treasurer provided a financial report that included general and capital projects fund bank balances, total monthly expenditures and, when applicable, transfers, budget amendments and reports submitted to external parties since the last meeting (e.g., monthly retirement system report) to all Board members at the monthly meetings. However, he did not provide the Board with monthly budget status reports containing year-to-date revenues and expenditures as compared to corresponding budgetary estimates.

We reviewed monthly reports provided to the Board for five months of our audit period.¹ The information provided each month was inconsistent. For example, while the Board received a financial report for all five months, it only received appropriation status reports for two of the five months and did not receive any revenue status reports.

The Mayor and three Board members stated that the Board has not requested monthly budget status reports or other financial reports because it felt the reports provided were sufficient. However, these reports lacked budget-to-actual information necessary for monitoring the budget throughout the year. As a result, the Board's ability to effectively monitor revenues and expenditures against budgeted amounts and take necessary action, when warranted, is impaired.

Because budget status reports were not regularly provided, we compared actual expenditures to budgeted appropriations. For fiscal year 2020-21, nine appropriation accounts were over expended by a total of \$10,350 as of May 31, 2021. The Treasurer said that year-end budget adjustments were made to address budget variances. However, the Treasurer was unaware that these appropriation accounts were still overexpended after the year-end budget adjustments were made.

For fiscal year 2021-22, 10 appropriation accounts were overexpended by a total of \$241,238 as of January 31, 2022. Budget adjustments were not made by the Treasurer in a timely manner to address the budget variances. The Treasurer

...[Ten]
appropriation
accounts were
overexpended
by a total of
\$241,238. ...

¹ Refer to Appendix C for further information on our sample selection.

said he waits until year-end to address budget variances by transferring between appropriations, where appropriate.

The Board has no authority to approve expenditures without an available appropriation and without complete monthly financial reports, the Board cannot exercise adequate oversight of financial operations and be aware of the Village's true financial condition. Waiting until the close of the fiscal year to make necessary budget adjustments is not fiscally prudent, could lead to more serious financial conditions and limits the Board's ability to predict year-end financial outcomes that can be useful when preparing the ensuing year's budget.

The Board Did Not Review Bank Reconciliations

The Village has 10 bank accounts that should be reconciled to the accounting records each month. The Board did not ensure that the Treasurer prepared and retained accurate bank reconciliations.

The Treasurer maintained year-to-date running reconciliations for all 10 bank accounts. Bank reconciliations contained beginning year balance, year-to-date deposits including applicable deposits in transit and year-to-date withdrawals including applicable outstanding checks. However, these reconciliations were not maintained on a monthly basis and were used by the Treasurer to informally ensure the accounting records reconciled to the bank statements without an independent review.

The Treasurer stated that due to the size of the Village, there was no one other than himself to review monthly bank reconciliations. The Treasurer did not consider having the Board review monthly bank reconciliations.

As a result, the Board was not provided the opportunity to review reconciled bank balances and compare them to recorded cash balances. Consequently, the Board did not recognize that it was receiving unreconciled cash balances on the monthly financial reports. Specifically, the monthly financial reports provided bank statement balances, without identifying any applicable deposits in transit or outstanding checks.

Monthly financial reports containing unreconciled cash balances inhibits the Board's ability to effectively monitor and manage the Village's financial operations throughout the year. Further, the lack of adequate reviews of bank reconciliations that are not independently prepared increases the risk that errors and irregularities could occur and remain undetected and uncorrected.

How Does a Board Effectively Audit Claims?

With limited exceptions, boards are required to audit and approve all claims before payment. The audit of claims should be a deliberate and thorough process to determine whether the proposed payments are for proper purposes and that the goods or services were received. Boards may by resolution authorize payment in advance of audit for claims for public utility services, postage and freight and express charges. However, these claims must be presented and audited by a board at its next regular meeting.

The Board Did Not Properly Audit Claims Paid in Advance

The Board audited claims monthly, but certain claims, such as utility services, postage, replenishment of petty cash, and various supplies and equipment, were paid without audit. According to the Treasurer, the Board authorized payment in advance of audit for claims for public utility services, postage and freight and express charges. However, Village officials could not provide a copy of the resolution. The Mayor and three Board members stated that they were fully aware that the Treasurer was authorized to make payments in advance of audit for allowable purposes.

The Treasurer prepared unaudited claims by attaching the related supporting documentation (e.g., invoices and receipts) and entering the claim information into the accounting system which generated the monthly unaudited abstract. The unaudited claims and abstracts are not presented and reviewed by the Board at the next regular meeting. Rather, the Treasurer reported the overall total of unaudited claims paid for the month on the financial report provided to the Board. The Treasurer stated that he was unaware that these claims were required to be presented and audited by the Board at the next regular meeting.

We reviewed 10 claims totaling \$44,421 that were listed on unaudited abstracts during our audit period to determine whether they were presented and audited by the Board at the next meeting and whether they were for an allowable purpose. None of the 10 claims were presented and audited by the Board at the next regular meeting. In addition, six of these claims totaling \$37,289 were not allowable for payment in advance of audit. While not allowed to be paid in advance of audit, these claims were for various appropriate purposes, such as, the annual insurance package, replenishment of the petty cash fund, newspaper advertising, office and janitorial supplies and fire department equipment. According to the Treasurer, these claims were for rare instances where he was awaiting an invoice but received Board approval to make the payment. However, Board approval was not documented in the meeting minutes.

...[S]ix...
claims
totaling
\$37,289 were
not allowable
for payment
in advance of
audit. ...

Relying on the reported total of unaudited claims paid on the financial report, without ensuring that the claims were adequately supported and appropriate, increases the risk that improper disbursements could be made.

Why Should the Board Perform Annual Audits?

A board is required to conduct an annual audit, or have a village officer, employee or an independent public accountant audit the treasurer’s annual report and the supporting records. An annual audit serves as an important internal control over cash collections and disbursements by providing independent verification that transactions are properly recorded, and cash is properly accounted for. The audit should be thorough and sufficiently detailed to provide board members with an added measure of assurance that the financial records and reports contain reliable information on which to base financial decisions.

A treasurer is required to file a statement in the village clerk’s office detailing all revenues and expenditures during the previous fiscal year and outstanding indebtedness as of the fiscal year end within 60 days after the fiscal year end. A board can authorize the treasurer to instead file an annual financial report, known as an annual update document (AUD), in the village clerk’s office. The AUD is required to be filed with the New York State Office of the State Comptroller (OSC) within 60 days after the close of the fiscal year and may request a 60-day extension. This report provides a board, OSC, village taxpayers and other interested parties with a tool for monitoring financial operations. The annual audit should be conducted in a timely manner to ensure that reported financial information relied on by various parties is accurate.

The Board Did Not Ensure Annual Audits Were Timely

The Board did not audit, or provide for an audit of the Treasurer’s records and reports in a timely manner (Figure 1). In January 2021, the Village engaged independent auditors to audit the Treasurer’s 2019-20 and 2020-21 records and reports. Additionally, there is no evidence that the Board authorized the Treasurer to submit the AUD in lieu of filing a statement of all revenues, expenditures and outstanding debt at year-end.

Figure 1: Annual Audit Reports

Fiscal Year	Statement Filing Deadline	Audit Report Submitted	Days After Filing Deadline
2019-20	September 30, 2020	December 1, 2021	427
2020-21	September 30, 2021	Not Complete	182 (as of March 31, 2022)

During our audit period, the independent auditors issued a report on the Treasurer's 2019-20 records and reports approximately 427 days after the statement filing deadline. The Mayor stated that the independent auditors are currently conducting the audit of the 2020-21 records and reports which, as of the end of our fieldwork, was approximately 182 days after the statement filing deadline

Without sufficient oversight of the Treasurer's financial duties and a timely annual audit, there is an increased risk that errors and/or irregularities could occur and remain undetected and uncorrected. Further, the Board cannot be sure it has accurate financial information to make decisions and gauge the Village's financial condition.

What Do We Recommend?

The Board should:

1. Establish sufficient compensating controls, including periodically reviewing bank statements, cancelled check images and bank reconciliations prepared by the Treasurer.
2. Ensure it receives adequate monthly budget status reports from the Treasurer to fulfill the responsibility of monitoring financial operations with accurate budget-to-actual information.
3. Provide adequate oversight by ensuring bank reconciliations are properly prepared, independently reviewed and retained.
4. Ensure a proper resolution is retained authorizing payments in advance of audit for allowable purposes.
5. Ensure the Treasurer pays only those claims before Board audit and approval that are allowed to be paid in advance and audit such claims at the next regular meeting.
6. Require the Treasurer to file the statement of revenues, expenditures and outstanding debt within 60 days of the fiscal year end or authorize the Treasurer to file the AUD by the deadline in the Village Clerk's office.
7. Annually audit, or retain a firm to audit, the Treasurer's annual financial report and supporting records in a timely manner.

Appendix A: Response From Village Officials

Village of Waterford

73 Broad Street
Waterford, NY 12188
Phone/Fax: (518) 235-9898

Ryan W. VanDerVoort, Treasurer

J. Bert Mahoney, Mayor

Robin Koblensky, Clerk

July 11, 2022

Gary G. Gifford, Chief Examiner
Office of the New York State Comptroller Office
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, NY 12801-4396

RE: Audit Report 2022M-70

Dear Mr. Gifford,

Please accept this letter as the Village of Waterford's confirmation of receipt to the above referenced audit report for the Village of Waterford.

The Mayor, Board of Trustees, Village Clerk and Village Treasurer would like to extend our thanks to the Office of State Comptroller on its recent audit of the Village of Waterford. Further, we would like to offer our thanks to the Audit Staff. They were professional, courteous and thoughtful throughout the process in these unprecedented times. We found this process to be educational, enlightening and overall seamless.

The Board (consisting of the Mayor and Trustees) acknowledges the findings and recommendations presented in the Draft Audit Report. The Board respectfully does not agree with the overarching statements identifying the Board is lacking oversight over Village Operations. In light of the Village's limited staffing resources, the Board believes adequate internal controls and processes are in place. As identified in the report no significant discrepancies were found during audit testing.

The Board has involvement and oversight of all aspects of Village Operations with access to spending and expenditure budget statuses, bank statements and other information as presented throughout the village fiscal year and available upon request at any time to assist in decision making. For example, their involvement, oversight and information access allows the Board to make budget adjustments as needed to balance the annual budget. Due to the Village's business cycle, the majority of budget adjustments are finalized at year-end. Based on the Board experience and the Village's consistent and firm financial standing this process has been effective.

See Note 1 Page 10

Village of Waterford ~ Incorporated March 25, 1794

Overall, the Board acknowledges the Audit Staff has identified potential areas of process improvement and based on the findings and recommendations, the Board will review further and work collaboratively to identify and implement the necessary corrective action plan to address.

Yours truly,



J. Bert Mahoney
Mayor
Village of Waterford

Village of Waterford ~ Incorporated March 25, 1794

Appendix B: OSC Comment on the Village's Response

Note 1

While the Board may have access to information, the Board did not request or receive monthly budget status reports and unknowingly received unreconciled bank balance information, without providing additional oversight for the Treasurer's duties that were not adequately segregated. Additionally, the Village's business cycle should not prevent the Board from making necessary budget adjustments throughout the year, ensuring that expenditures are not approved without an available and authorized appropriation.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We reviewed Board minutes, Village policies and procedures and independent audit reports and interviewed Village officials to gain an understanding of the Board's oversight of financial operations and to determine whether the Board performed or caused an annual audit of the Treasurer's annual financial report and supporting records for 2021.
- We randomly selected one month and reviewed 10 payments for real property taxes and other miscellaneous receipts (e.g., building permits) totaling \$20,686 to determine whether money collected was properly deposited and recorded.
- We reviewed five months of financial reports provided to the Board to determine whether the reports were adequate. We also reviewed bank reconciliations available for the same five months to determine whether they were accurately prepared and properly retained and reviewed each month. We used our professional judgment to select the months of September 2020, January 2021, May 2021, November 2021 and January 2022. We selected these months to capture various months throughout the period including a fiscal year-end and the most current month available.
- We reviewed the accounting records for May 2021 and January 2022 to determine whether accounts were overexpended at year-end and to determine whether current budget variances had been addressed in a timely manner. We reviewed Board minutes to determine whether budget adjustments were approved by the Board to address the budget variances noted.
- We used our professional judgment to select 10 audited claims totaling \$125,481 from the 473 audited claims totaling \$744,805 based on dollar amounts, including a range of claim amounts. We reviewed the claim packets, abstracts, bank statements and cancelled check images to determine whether claims were audited and approved by the Board before payment.
- We used our professional judgment to select 10 unaudited claims totaling \$44,421 from the 420 unaudited claims totaling \$212,232 based on dollar amount and vendor. We reviewed the claims packets and abstracts to determine whether claims were audited and approved by the Board at the next regular meeting and whether they were for an allowable purpose.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan

and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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.

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 provided 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 the CAP available for public review in the Village Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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