

Village of Afton

Board Oversight

MAY 2018



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

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Report Highlights

Village of Afton

Audit Objective

Determine whether the Board properly managed fund balance, cash receipts and disbursements, and water rents.

Key Findings

The Board did not:

- Properly manage fund balance levels.
- Provide proper oversight of the Clerk-Treasurer's cash receipts and disbursements responsibilities.
- Ensure water rents and penalties were properly billed.

Key Recommendations

- Develop a fund balance policy establishing a reasonable amount of fund balance that should be maintained to meet the Village's needs.
- Segregate the Clerk-Treasurer's financial duties or establish sufficient compensating controls to provide additional oversight.
- Ensure all system users are properly charged for water use and penalties.

Village officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

Background

The Village of Afton (Village) is located in the Town of Afton in Chenango County.

The Village is governed by an elected board of trustees (Board) and a Mayor. The Board is the legislative body responsible for oversight and general management of Village financial operations. The Mayor is the Village's chief executive officer responsible for the day-to-day management. The Clerk-Treasurer, who is appointed by the Mayor, is responsible for maintaining custody of all Village money; maintaining accounting records; preparing financial reports; billing and receiving water rent revenues; and preparing and signing checks

Quick Facts

2017-2018 General and Water Fund Appropriations	\$571,248
Population	822
Employees	14

Audit Period

June 1, 2016 – November 30, 2017

We extended the scope back to June 1, 2014 to analyze financial condition.

Board Oversight

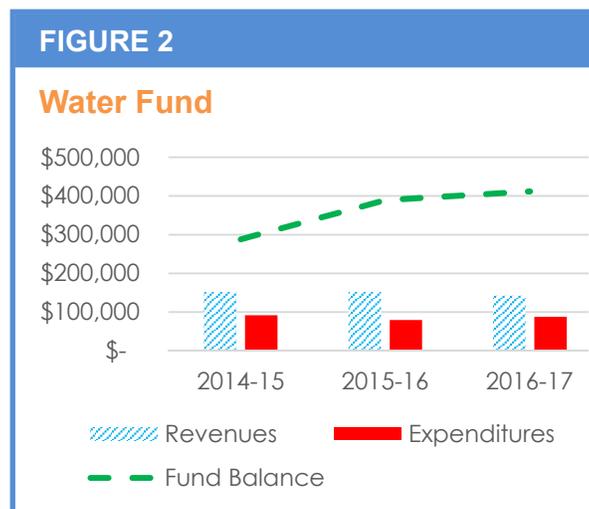
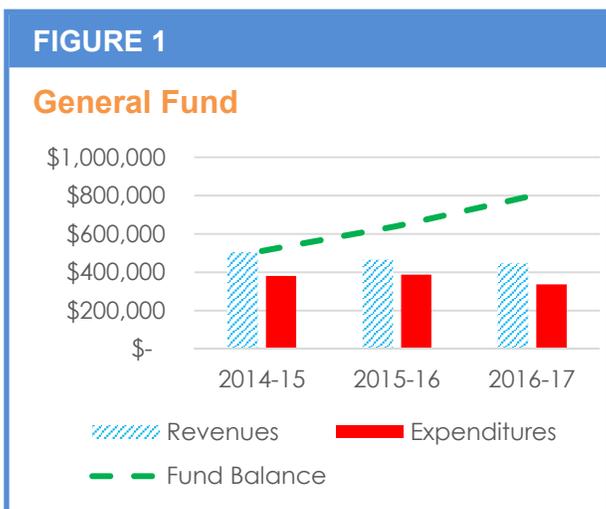
What is Proper Board Oversight?

A board is responsible for managing fund balance levels and establishing a system of internal controls to ensure that all money is collected, recorded and safeguarded, and disbursed for proper purposes. An important component of fund balance management is planning long-term priorities and goals. Having multiyear financial and capital plans help a board assess alternative approaches to financial issues, such as accumulating fund balance, obtaining financing or using surplus funds to finance annual operations. A fund balance policy, which provides guidance on its use, is an important component of any multiyear financial plan. A board should also adopt structurally balanced budgets, based on historical or known trends, in which recurring revenues finance recurring expenditures.

Boards must ensure that no individual controls all aspects of financial transactions, or implement compensating controls. To meet these responsibilities, boards must adopt appropriate policies and procedures, oversee financial operations including monthly reviews of key reports and conduct or provide for an annual audit of the clerk-treasurer's records. The clerk-treasurer is responsible for providing accurate and timely financial reports to the board with enough information to monitor financial affairs.

The Board Did Not Properly Manage Fund Balance Levels

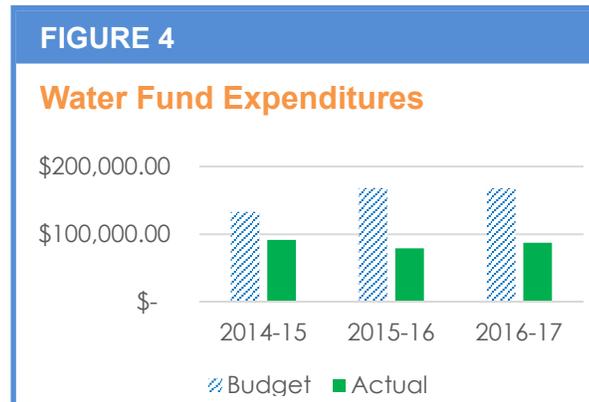
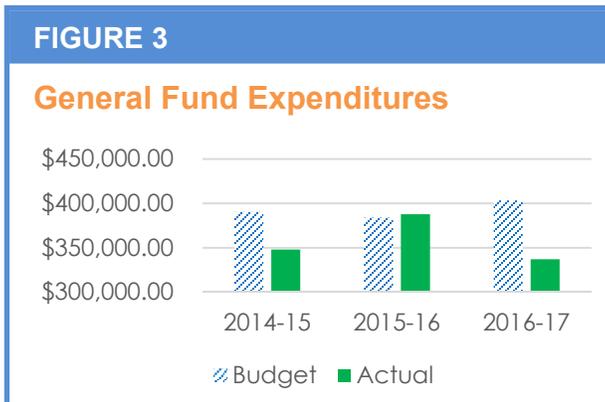
The general fund's total fund balance increased by 56 percent from 2014-15 through 2016-17, resulting in an accumulation of \$799,870, or 237 percent of general fund expenditures (Figure 1¹). Additionally, the water fund's fund balance increased by 43 percent for the same three fiscal years, resulting in an accumulation of \$411,958, or 472 percent of water fund expenditures (Figure 2²).



1 Data from Village's accounting system

2 Ibid.

While general fund and water fund revenue estimates were reasonable, the Board overestimated general fund expenditures by an aggregate of \$111,583³ (9 percent annual average) (Figure 3⁴) and overestimated water fund expenditures by an aggregate of \$210,800 (44 percent annual average) (Figure 4⁵).



The total general fund expenditure variances over the past three years were driven primarily by overestimating police personal services (\$103,291 or 50 percent), state retirement (\$28,849 or 50 percent) and transfers to other funds (\$73,735 or 100 percent). While personal services based on hourly staff may be less predictable, expenditures based on an invoice or Board action should not be difficult to predict. The total water fund expenditure variances over the past three years were primarily driven by overestimates for contingency (\$45,088 or 97 percent), personal services (\$41,482 or 24 percent) and capital (\$49,602 or 100 percent). Based on historical trends, these expenditures should not be difficult to estimate.

The Clerk-Treasurer does not provide the Board with any monthly reports, such as budget-to-actual reports or fund balance levels. Furthermore, the Board has not developed any comprehensive multiyear financial and capital plans or a fund balance policy specifying the Board's objectives and goals for the funds. The Mayor told us she does not consider historical data when preparing budgets. Instead, she would budget for what she believed would be the maximum costs of certain expenditures. For example, the Mayor did not budget for the part-time police force's historical salary expenses. Instead, she budgeted an amount more representative of all the officers working full-time. Based on our review of budgets, estimates are often carried forward from year-to-year without any consideration of historical expenditures.

³ We excluded FEMA expenditures because officials could not have anticipated their amount.

⁴ Data from Village's accounting system

⁵ Ibid.

Even though the Village raised more taxes than needed to fund operations, the Board raised real property taxes by an annual average of almost 2 percent from 2014-15 through 2017-18. This was exacerbated by maintaining significant fund balance levels.

Furthermore, the Board-adopted water rates have not been evaluated since 2008. Without an annual review of water expenditures, water rates could be higher than necessary, another factor contributing to elevated fund balance levels. Additionally, without monthly financial reports, the Board's ability to effectively monitor the Village's financial condition is diminished.

The Board Did Not Provide For Proper Oversight of Cash Receipts and Disbursements

The Clerk-Treasurer performs most aspects of the cash receipts and disbursements processes, including receiving cash, issuing receipts, creating and signing the checks, recording transactions and reconciling the bank accounts. While the Board reviews and approves vouchers, no one reviews bank reconciliations or check images to ensure all disbursements made were Board-approved and for proper purposes. Furthermore, there is no routine review of cash receipts activity by someone independent of the collections process. Moreover, the Board did not perform any annual audits of the Clerk-Treasurer's records.

This occurred because the Mayor and Board did not segregate the Clerk-Treasurer's duties or implement compensating controls, such as supervisory or other oversight procedures designed to reduce the risk of errors or fraud occurring or not being detected. Furthermore, the Board was unaware of the annual audit requirement.

We tested 139 receipts totaling \$189,640⁶ and 100 checks totaling \$39,015 to determine whether receipts were deposited in a timely manner and disbursements were for proper purposes. We found only minor exceptions, which we communicated to Village officials.

When the Clerk-Treasurer's responsibilities include performing most aspects of the Village's receipt and disbursement transactions with inadequate oversight, there is an increased risk of recordkeeping errors or loss of Village funds due to errors or irregularities. Therefore, the Mayor and Board have limited assurance, beyond the voucher approval process, that funds are used solely for legitimate Village purposes. Furthermore, the Mayor and the Board may not be able to detect inappropriate activity in a timely manner.

⁶ Real Property Taxes – 56 receipts totaling \$38,846; Third Party Payments – 48 receipts totaling \$149,414; Parking Tickets – 35 receipts totaling \$1,380

How Should Water Rents Be Billed?

Boards are responsible for ensuring that all water system users are charged for water use. To this end, boards should ensure that accurate information is kept for each property, such as when the water supply is turned off or on. This information should then be compared to the municipality's billing records to ensure all system users are being billed. Village officials should ensure penalties are assessed in accordance with the Village's Water Rules and Regulations⁷ – which require a 10 percent penalty to be added to water bills after January 31 and July 31 – and ensure any deviations from existing procedures are based on appropriate Board action. If the Board determines that partial payments will be accepted, it should establish a policy for accepting partial payments to ensure that all residents are treated fairly.

The Board Did Not Ensure Water Rents and Penalties Were Properly Billed

We found four customers who were not billed for water during our audit period. One customer was never billed, the second had not been billed since 2005, the third since 2014 and the last since 2015. One year of estimated billings for these customers totaled \$1,140. Village officials told us they believed water was turned off at two of the properties but did not know why the remaining customers were not billed. Furthermore, water penalties were not billed in accordance with the Village's policy. As a result, for one billing cycle we reviewed, the Village lost over \$200 in revenue from customers paying after the due date. The Clerk-Treasurer also accepted partial payments from customers, including a Board member, without authority to do so.

These errors occurred due to of the lack of oversight for bill preparation and application of penalties. More specifically, the Clerk-Treasurer processes the bills biannually, but no procedure is in place to verify the water rents are billed properly or that all customers receive a bill. For example, the July 2017 water billing totaled \$81,170, in which 363 bills were sent for 465 properties. Because the Village does not have a master listing of water users, Village officials could not ensure all users received a bill for this cycle.

While the Clerk-Treasurer told us she was directed⁸ by the Mayor and Board to apply 2 percent penalties to delinquent accounts, she did not provide us with evidence of the official Board action. Furthermore, there were no policies in place to detail when or how partial payments would be accepted and accounted for.

7 Article 3, Section 3, Paragraph 16

8 Based on discussions between the Mayor and the Board at Board meetings

When Village officials fail to charge all users for water rents and penalties, it may create inequity. Without an accurate and current list of all system users, along with adequate procedures to reconcile these records to the water bills, officials cannot determine whether all system users are charged for water services. In addition, without established procedures for the acceptance of partial payments, officials cannot ensure that all residents are treated fairly.

What Do We Recommend?

The Board should:

1. Reduce the amounts of the general and water fund balance and use the excess funds as a financing source in a manner that benefits Village residents. Such uses could include, but are not limited to:
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Reducing real property taxes or user fees.
2. Adopt budgets that reflect Village operating needs based on historical trends or other known trends.
3. Adopt a comprehensive fund balance policy addressing Village budgeting practices and establishing reasonable fund balance levels, and how and when fund balance will be used.
4. Develop and adopt comprehensive multiyear financial and capital plans establishing goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.
5. Segregate the Clerk-Treasurer's financial duties or establish sufficient compensating controls to provide additional oversight.
6. Conduct or arrange for an annual audit of the Clerk-Treasurer's records and reports.
7. Ensure all system users are properly charged for water use and penalties.
8. Establish a policy for accepting partial payments of water user fees to ensure that all residents are treated fairly.
9. Amend the Village's Water Rules and Regulations to include an updated penalty structure for delinquent water rents.

The Clerk-Treasurer should:

10. Provide the Board with monthly budget-to-actual and balance sheet reports that include fund balance levels.
11. Only accept partial payments or charge late payment penalties in accordance with Board policies.

Appendix A: Response From Village Officials

VILLAGE OF AFTON

P O BOX 26

AFTON NY 13730

Phone 639-1022 Fax 639-2991

Hours: Monday & Wednesday - 9am to 2:30 pm

Thursday – 9am to 2:30 pm

April 18, 2018

Re: Village of Afton, NY

Audit Response and Corrective Plan

The Village of Afton is in receipt of the Draft Audit Report – Board Oversight for the period of June 1, 2016 through November 30, 2017. As well as the extended scoop back to June 1, 2014 to analyze financial conditions of the Village. This audit has been prepared by the Office of State Comptroller. The Village of Afton Board of Trustees and the Mayor would like to thank the Comptroller's staff for their professionalism and courtesy in conducting their duties associated with this audit.

Sincerely,

Cynthia Burnett
Afton Mayor

VILLAGE OF AFTON
P O BOX 26
AFTON NY 13730

Phone 639-1022 Fax 639-2991

Hours: Monday & Wednesday - 9am to 2:30 pm

Thursday – 9am to 2:30 pm

RECOMMENDATIONS

1. Reduce the amount of the general and water fund balance and use the excess funds as a financing source in a matter that benefits Village residents. Such uses could include, but are not limited to:
 - Funding one- time expenditures,
 - Funding needed reserves and
 - Reducing real property taxes or user fees.

The Village of Afton is currently working with Delaware Engineering, D.P.C. to obtain grant funding to help offset the cost of replacing the Village water tank. As per our County Health Department the tank must be replaced. This project is estimated to cost a maximum of \$1,250,000.00 to remove the existing storage tank, necessary site work and installation of a new 210,000 - gallon water storage tank. The Village has an estimated \$410,000.00 in savings to use towards this project. As well as the expected revenues from this water billing cycle.

The Village will also be purchasing a new backhoe not to exceed no more than \$67,606.75, 580NWD T4. This purchase will include the trade in of the current backhoe that is a 2004 Case 580M.

2. Adopt budgets that reflect Village operating needs based on historical trends or other known trends.

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Each year when developing the annual Village budgets, the previous Mayor would have the Village Clerk / Treasurer print the previous year's fiscal sending spread sheet as well as the current years fiscal spending. Upon comparison of what has been spent as well as expected increases for the up on coming fiscal year an estimated amount was configured.

3. Adopt a comprehensive fund balance policy addressing Village budgeting practices and establishing reasonable fund balance levels, and how and when fund balance will be used.

The Village of Afton has diligently set money aside with the anticipation of needing to replace the water tank. Going forward the Village Board of Trustees will establish a policy to set forth monies for projects needing completion throughout the Village. Such as replacing the much needed sidewalk repairs.

4. Develop and adopt comprehensive multiyear financial and capital plans establishing goals and objectives for long – term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

The Village Board of Trustees will adopt a plan for funding long- term objectives / needs. While this planning is being successfully completed on a year to year basis, the Board of Trustees will create a policy for creating sources of revenue and/ or establishing reserves for certain long – term objectives for the Village.

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The Village Board of Trustees will define what the Village’s long term objectives are and then use the Village’s financial data to formulate a plan for achieving these objectives.

5. Segregate the Clerk – Treasurer’s financial duties or establish sufficient compensating controls to provide additional oversight.

The Mayor along with the Village Board of Trustees will regularly review financial duties of the Clerk / Treasurer to provide additional oversight. The Village Board of Trustees will also conduct a yearly audit on the Villages finances after each fiscal year end.

6. Conduct or arrange for an annual audit of the Clerk / Treasurer’s records and reports.

The Village Board of Trustees will also conduct a yearly audit on the Villages finances after each fiscal year end.

7. Ensure all system users are properly charged for water use and penalties.

The Village Board of Trustees will be reviewing the rules and regulations of the Afton Water Works Ordinances, Due to the lack of evidence of previous

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changes made to the 10% penalties changes. The Village of Afton will revert back to the 10% being added to any unpaid water billing after the April 1 and October 1 billings. As well as insuring that all property owners are billed for services, instead of tenants.

8. Establish a policy for accepting partial payments of water user fees to ensure that all residents are treated fairly.

The Village Clerk / Treasurer was not informed by any one Board Member or previous Mayor that partial payments were not acceptable. In fact one Board Member informed the Clerk/ Treasurer that she has always made partial payments. Letters of notification will be sent to those, who have made partial payments informing them that this is not acceptable.

9. Amend the Village's Water Rule and Regulations to include an updated penalty structure for delinquent rents.

The Village Board of Trustees will be reviewing the rules and regulations of the Afton Water Works Ordinances, making any necessary changes.

The Clerk / Treasurer should:

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10. Provide the Board with monthly budget to actual and balance sheet reports that include fund balance levels.

Historically these reports have never been requested by any one Board Member or the previous Mayor. These reports will be submitted to the Village Board of Trustees at the monthly Board Meeting, along with the abstracts.

11. Only accept partial payments or change late payments penalties in accordance with Board policies.

The Village Board of Trustees will be reviewing the rules and regulations of the Afton Water Works Ordinances. Necessary changes will be made. But that will not include taking partial payments. The 10% penalties will revert back to the original rule of being applied to any unpaid water billing after the April 1 and October 1 billings.

Appendix B: 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 interviewed Village officials and employees to gain an understanding of policies and procedures for the financial processes including budgeting, cash receipts and disbursements and water billing.
- We reviewed fund balances for the general and water funds. We analyzed balances and use for fiscal years 2014-15 through 2016-17.
- We compared the general and water fund estimated revenues and appropriations with actual revenues and expenditures for fiscal years 2014-15 through 2016-17 to determine whether budget estimates were reasonable.
- We reviewed the Village's real property tax levy for the 2014-15 through 2016-17 fiscal years to determine whether the levy was increasing.
- We judgmentally selected all Village officials residing in the Village and judgmentally selected an additional 14 properties without any known bias to determine whether real property tax bills were collected, reported and deposited timely and intact.
- We traced third party payments from Chenango County to determine whether deposits were recorded correctly in the accounting software and deposited in the bank.
- We traced permits from the duplicate receipt book to determine whether deposits were recorded correctly in the accounting software and deposited in the bank.
- We traced parking tickets on file with the Clerk-Treasurer to determine whether they were properly recorded in the accounting software and deposited in the bank.
- We selected all check images from December 2016 and May 2017 and traced those payments to supporting documentation to determine whether they were for proper Village purposes.
- We selected all check images made out to individuals for the scope period and traced those payments to supporting documentation to determine whether they were for proper Village purposes.
- We compared the water shut-off map to the Village tax roll and the water bills to determine whether residents who should receive a bill were actually billed.

-
- We verified that water payments were properly recorded and deposited by tracing receipts to the bank statements. If late payments occurred,⁹ we recalculated penalties due to determine whether payments had proper penalties applied and collected.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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 Clerk-Treasurer's office.

⁹ Per the Village's Water Rules and Regulations, water billings are due by January 31 and July 31. Amounts received thereafter are subject to a penalty equal to 10 percent of the current charge.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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Division of Local Government and School Accountability
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Local Government and School Accountability Help Line: (866) 321-8503

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