



# Village of Delanson

## Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

June 1, 2010 — April 30, 2012

2012M-232



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

March 2013

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Trustees 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 Delanson entitled Internal Controls Over Selected Financial Operations. 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

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# EXECUTIVE SUMMARY

The Village of Delanson (Village) is located within the Town of Duanesburg in Schenectady County. The Village provides general administration, water services, fire protection, and road maintenance and plowing services to its 377 residents.

The Village accounts for most of its financial activity in the general and water funds. In the 2010-11 fiscal year the Village had combined operating expenses in the general and water funds totaling \$268,500 and in the 2011-12 fiscal year the Village had combined appropriations of \$312,000. The Village derives its revenues primarily from real property taxes, sales tax, fire protection agreements with other municipalities and water rents.

The Village Board of Trustees (Board), which comprises three elected members, the Mayor and two Trustees, governs the Village. The Board is responsible for the general management and control of the Village's financial affairs.

### **Scope and Objectives**

The objectives of our audit were to examine disbursements and the real property tax and water rent billings and collections for the period June 1, 2010, to April 30, 2012. Our audit addressed the following related questions:

- Are internal controls over cash disbursements appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over property taxes and water rents adequate to ensure they are properly accounted for?

### **Audit Results**

We found deficiencies in the Village's internal controls over cash disbursements. The Clerk and Treasurer both independently perform incompatible cash disbursement duties and compensating controls have not been established to mitigate this weakness. Furthermore, the Board did not require claims to be adequately documented and did not appropriately audit and approve all claims. Due to these deficiencies, there is an increased risk that inappropriate transactions could occur and not be detected, and the Board cannot be assured that all cash disbursements are for valid and necessary Village purposes.

Internal controls were not adequate to ensure real property taxes and water rents were properly accounted for. Incompatible duties were not segregated and the Clerk did not maintain appropriate, complete and accurate records to detail real property tax and water rent billings and collections. Furthermore, deposits were not made timely in compliance with Real Property Tax Law and Village policy and appropriate amounts of interest and penalties were not collected. As a result of these deficiencies, the Clerk did not collect all interest and penalties due on overdue real property tax and water rent payments or properly record and report to the County unpaid water rents for re-levy.

### **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 planned to initiate corrective action.

# Introduction

## Background

The Village of Delanson (Village) is located within the Town of Duanesburg in Schenectady County. The Village provides general administration, water services, fire protection, and road maintenance and plowing services to its 377 residents.

The Village accounts for most of its financial activity in the general and water funds. In the 2010-11 fiscal year the Village reported operating expenses of \$268,500 in the general and water funds combined and combined appropriations of \$312,000 in the 2011-12 fiscal year. The Village derives its revenues primarily from real property taxes, sales tax, fire protection agreements with other municipalities and water rents.

The Village Board of Trustees (Board), which comprises three elected members, the Mayor and two Trustees, governs the Village. The Board is responsible for the general management and control of the Village's financial affairs. The Mayor is the chief executive officer and the Board-appointed Treasurer is the Village's chief fiscal officer. The Treasurer is responsible for monitoring the budget, disbursing Village moneys, keeping records of cash receipts and disbursements, and preparing various financial reports. The Village Clerk acts as Tax Collector and is responsible for collecting both real property taxes and water rents.

## Objectives

The objectives of our audit were to examine disbursements and real property tax and water rent billings and collections. Our audit addressed the following related questions:

- Are internal controls over cash disbursements appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over property taxes and water rents adequate to ensure they are properly accounted for?

## Scope and Methodology

We examined the Village's disbursements and real property tax and water rent billing and collection records for the period June 1, 2010 to April 30, 2012. We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of  
Local Officials and  
Corrective Action**

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

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and 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 of Trustees to make this plan available for public review in the Clerk's office.

## Cash Disbursements

To adequately safeguard Village monies, the Board must establish an internal control system which ensures all disbursements are properly documented, authorized and comply with Village policy. To accomplish this, the Board must require incompatible duties to be segregated or establish mitigating controls, require disbursements to be adequately documented and ensure claims are properly audited. Further, the Board must annually audit the Clerk's and Treasurer's records to ensure monies are properly accounted for.

We found deficiencies in the Village's internal controls over cash disbursements. The Clerk and Treasurer both independently perform incompatible cash disbursement duties and compensating controls have not been established to mitigate this weakness. Furthermore, the Board did not require claims to be adequately documented or appropriately audit and approve all claims. As a result, Village funds could be used inappropriately without detection by the Board.

### Segregation of Duties

A basic principle of any internal control system for cash disbursements is the requirement that no individual control all aspects of a financial transaction, such as preparing, signing and disbursing checks, recording cash disbursement transactions, and reconciling bank accounts. If it is not feasible for Village officials to segregate incompatible duties, they should implement compensating controls. Some examples of compensating controls could include designating someone independent of the process to periodically review bank statements and reconciliations or requiring multiple signatures on checks.

Cash disbursement duties were not adequately segregated in the Village and no compensating controls had been established. Generally, the Clerk was responsible for preparing claims and entering them into the computerized accounting software. The Treasurer then printed and signed the checks based on the claims entered by the Clerk. Although this process segregates the preparing and signing checks, we found this process was circumvented by the preparation of hand-drawn checks. Both the Clerk and Treasurer were authorized to sign checks, had access to check stock and prepared hand-drawn checks. Furthermore, the Treasurer was responsible for performing monthly bank reconciliations.

The Board did not establish compensating controls to mitigate the risks associated with the Clerk and Treasurer performing these incompatible duties. Although the Treasurer's bank reconciliations were reviewed

by an individual<sup>1</sup> independent of the cash disbursement process, the Village did not obtain canceled checks or checks images to be reviewed in conjunction with the bank reconciliations. As a result, the reviews were not sufficient to ensure disbursements were appropriate. Further, the Board did not perform a detailed annual audit of disbursement records or receive comprehensive monthly disbursement reports.

As a result of these deficiencies, we obtained canceled check images from the Village's bank and reviewed a random sample of 30 disbursements<sup>2</sup> totaling \$42,407 to determine whether they were for appropriate purposes. We found four disbursements totaling \$1,065 which did not contain sufficient information to allow us to determine whether they were for appropriate purposes. For instance, we found one disbursement for \$108 to purchase memberships to a discount wholesale club. This disbursement was not supported by an itemized invoice and was not audited and approved by the Board. Although we did not identify any inappropriate transactions, these weaknesses increase the risk that inappropriate transactions could occur and not be detected.

## **Claim Documentation and Audit**

To ensure disbursements are appropriate, claims must be adequately documented and audited and approved by the Board. Claim documents must include a voucher, an itemized invoice or receipt, evidence of receipt of goods or services,<sup>3</sup> and department head approval. The Village's procurement policy also requires quotes or bids to be documented and filed with the appropriate claims. Further, Village Law requires each member of the Board to audit and approve all claims prior to payment. Although the Board may, by resolution, exempt certain claims from audit prior to payment, Village Law still requires the Board to audit these claims after they were paid.

Village employees make purchases and submit appropriate documentation to the Clerk who compiles claim documents, enters claim information into the computerized accounting software, prints a listing of claims and submits the claims and listing to the Board for audit. We selected a random sample of 30 disbursements totaling \$30,101 and found they were not sufficiently documented as follows:

- All 30 claims lacked evidence of receipt of goods or services. According to Village officials, it was not their practice to require purchasers to document the receipt of goods or services by signing the invoice or voucher form.

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<sup>1</sup> The Village contracted with a financial consultant who reviewed bank reconciliations as part of his duties.

<sup>2</sup> Including both hand-drawn checks and computer-processed disbursements

<sup>3</sup> Typically in the form of a receiver signature

- Nine claims totaling \$9,810 lacked department head approval. For instance, one claim totaling \$3,154 for the purchase of lockers for the fire department lacked department head approval.
- Three claims totaling \$5,547 were required by the Village's procurement policy to have quotes or bids but did not contain evidence that quotes or bids were obtained. For instance, one claim totaling \$3,154 for the purchase of lockers for the fire department required two written quotes to be obtained. According to Village officials, they obtained the required quotes but could not provide documentation of them.
- Seven claims totaling \$2,074 lacked an itemized invoice or receipt. For instance, one claim totaling \$428 for water department laboratory fees lacked an invoice.

We also reviewed these 30 disbursements to determine whether the Board appropriately audited and approved them for payment. We found two claims totaling \$548 were signed by one Trustee but the remaining 28 claims totaling \$29,553 were not signed by either Trustee. According to the Trustees, they audited every claim submitted to them, but typically did not document their audit and approval by signing the claims. The Mayor stated that she also reviews the claims, but often signs them as a department head rather than as a member of the Board. We found the Mayor signed 18 of the 30 claims as department head but did not sign the remaining 12 claims totaling \$11,273. To ensure the effectiveness of the Board's audit, each Trustee and the Mayor must document their audit and approval of every claim by signing the claim.

We also found that both the Clerk and Treasurer made disbursements using hand-drawn checks without compiling claim documentation or presenting them to the Board for audit and approval. These checks were written for a variety of purposes, including payments for utilities, postage, debt, training conferences, and to replace lost or voided checks. We reviewed the 37 hand-drawn checks totaling \$24,813 issued during our scope. We found that 10 checks were for appropriate purposes and had sufficient documentation. However, for the other 27 checks, there was no documentation for the purpose and the checks were not audited and approved by the Board as follows:

- Sixteen disbursements totaling \$2,554 were made for postage or utilities. Although the Board passed a resolution authorizing these claims to be paid prior to audit, they must be audited by the Board at the next regular meeting. Claims were not prepared and submitted to the Board for audit.

- Eleven disbursements totaling \$3,515 were made for purposes not authorized to be paid prior to audit. For example, a disbursement totaling \$1,468 was made to purchase chemicals for the water treatment plant. Claims were not prepared and submitted to the Board for audit and approval for these disbursements.

It is essential that the Village establish a proper claims audit process to ensure that payments for goods and/or services are properly audited and approved for payment by the Board. The lack of adequate procedures increases the risk that errors and irregularities could occur and go unnoticed. Due to these deficiencies, there is an increased risk that inappropriate transactions could occur and not be detected, and the Board cannot be assured that all cash disbursements are for valid and necessary Village purposes.

## **Recommendations**

1. The Board should ensure incompatible disbursement duties are appropriately segregated or mitigating controls are in place.
2. The Board should conduct an annual audit of the Clerk's and Treasurer's records.
3. The Board should require claims to be appropriately documented with an itemized invoice, documentation of receipt of goods, department head approval and quotes or bids as required by Village policy.
4. Village officials should make disbursements only for those claims audited and approved by the Board.
5. The Board should audit and approve all claims, including claims authorized to be paid prior to audit, and payments made with hand-drawn checks.

## Real Property Taxes and Water Rents

The Board is responsible for establishing an adequate system of internal controls to properly safeguard Village assets. To meet this responsibility, the Board must design and implement a system of internal controls to ensure real property taxes and water rents are properly accounted for. Such controls include the segregation of incompatible duties, the maintenance of accurate and complete billing and receipt records, and policies and procedures which require deposits to be made timely and appropriate interest and penalties to be assessed.

Internal controls were not adequate to ensure real property taxes and water rents were properly accounted for. Incompatible duties were not segregated and the Clerk did not maintain appropriate, complete and accurate records to detail real property tax and water rent billings and collections. Furthermore, deposits were not made timely in compliance with Real Property Tax Law and Village policy and appropriate amounts of interest and penalties were not collected. As a result of these deficiencies, the Clerk did not collect all interest and penalties due on overdue real property tax and water rent payments or properly record and report to the County unpaid water rents for re-levy.

### Real Property Taxes

The Board is responsible for establishing and maintaining a good system of internal controls over tax collections to ensure taxpayer monies are properly safeguarded. To meet this requirement, the Board must ensure incompatible duties are adequately segregated or mitigating controls are in place and the Tax Collector (Collector) maintains complete and accurate financial records. Furthermore, the Board is responsible for conducting an annual audit of the Collector's books and records.

The Collector is responsible for collecting real property taxes and assessing and collecting interest and penalties on all delinquent tax payments. The Collector is also responsible for maintaining complete and accurate financial records and remitting all monies collected to the Treasurer in a timely manner.

We found that the Board did not establish an adequate system of internal controls over tax collections. Incompatible duties were not adequately segregated as the Collector was solely responsible for billing, collecting, recording and depositing real property taxes. Furthermore, the Collector was responsible for reconciling collections and reporting unpaid taxes to Schenectady County. The Board did

not provide appropriate oversight to mitigate the control weakness associated with the Collector unilaterally performing incompatible duties. The Board did not require the Clerk to prepare monthly reports summarizing collection activities and did not properly exercise its responsibility to audit the Collector's records. As a result, the Collector did not maintain appropriate accounting records, make timely deposits or properly assess interest and penalties during the 2010-11 or 2011-12 fiscal years.

Recordkeeping – The Collector is responsible for maintaining accurate and complete records of every tax payment received, including interest and penalties. The Collector should document all payments received and maintain a detailed record of each transaction on a daily basis. The Collector should record tax payments separate from interest and penalties, and summarize all tax payments received on a daily basis. The Collector should ensure that daily cash receipts correspond to the total amount deposited for that day and document the date that he made the deposit.

We found the Collector did not maintain accurate and complete accounting records of tax collections. The Collector records collections in a manual cash receipts journal and documents the last name of the payee, amount paid, and type of revenue (i.e., real property taxes, relieved water rents, interest) but does not record the number of the tax bill for which the payment was received or the type of payment (cash or check). Furthermore, according to the Collector, the payment date he records is typically not accurate. According to the Collector, he sometimes allowed payments to accumulate before documenting the payment date on the tax bills. As a result, the date indicated on the bill may or may not be the actual date the payment was received. He records the payment date as the date that he records the payment in the accounting records, not the actual date the payment was received.

Timeliness of Deposits – According to Real Property Tax Law, the Collector should remit all taxes, including interest and penalties assessed and collected, to the Treasurer within 24 hours of receipt. The Collector's records should include both the date and the amount collected and deposited. The amount deposited should equal the total of payments received.

To analyze the length of time collections were held before deposit, we used the dates documented on the tax bills by the Clerk and compared them to deposit dates. Of the 222 bills for which \$119,422 was deposited, we found the date of payment was not documented on the tax bill in 40 instances. Furthermore, we found four instances in which the payment date recorded on the tax bill was after the deposit

date. The remaining 178 bills, for which \$102,778 was deposited, included collections that were deposited between three and 49 days after they were marked as paid.

Interest and Penalties – Real Property Tax Law requires the Collector to assess interest and penalties on all tax payments made after July 1. Real Property Tax Law also states that the payment date should be determined by the postmark date or, if there is no postmark date or the postmark date is not legible, the payment date is the date of delivery to the collecting officer. Interest charged for late payments is assessed at 5 percent for the first month with an additional 1 percent per month added thereafter. The Collector may not accept payments of less than the full amount of taxes and interest due on any payment made after July 1.

We found the Collector did not properly collect interest and penalties on tax payments made after July 1. According to the Collector, he believed that payments could be made prior to August 1 without interest and penalties. We reviewed a random sample of collections deposited after July 1 and reviewed the cash receipts journals to determine whether interest and penalties were due and, if so, whether they were collected.<sup>4</sup> In our sample of 125 tax bills, which totaled \$68,926, we found the Collector did not document the payment date for seven bills totaling \$2,114 and, as a result, we could not determine whether interest and penalties were due for those bills. Of the 118 remaining bills totaling \$66,812, 106 were paid after July 1 and, as a result, the Collector should have collected \$3,130 of interest and penalties for these bills. Interest and penalties of \$601 was paid for only 25 of the 106 bills, and the Village did not collect the \$2,529 of interest and penalties which was due for the remaining 81 tax bills paid late.

The Board's lack of oversight of the Collector's operation, including not reviewing monthly and finalized tax collection reports and not conducting an annual audit, and the Collector's failure to perform his duties and responsibilities increased the risk that errors and irregularities could occur and go undetected and unresolved. The poor control structure has resulted in collections not being recorded accurately, deposits not being made in a timely manner, and interest and penalties on late payments not being collected.

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<sup>4</sup> We randomly selected 10 deposits made after July 1 to obtain our sample of 125 tax bills.

## Water Rents

The Board and Village officials are responsible for ensuring that water user charges are properly billed, collected, and recorded in a timely manner. To meet this responsibility, the Board must ensure that duties are adequately segregated so that no individual controls all phases of the billing and collection cycle. If it is not feasible to segregate incompatible duties, Village officials should implement compensating controls such as designating someone independent of the process to periodically compare water accounts billed to the control account to ensure that water rents are billed properly. Furthermore, the Board must provide appropriate oversight of this process by performing, or providing for, an annual audit of the Clerk's records and reports.

The Board has not implemented controls to ensure that water rents are properly billed, collected and accounted for. Water rent billing and collection duties are not properly segregated. The Clerk is solely responsible for billing and receiving water rents, recording payments, preparing and making bank deposits, and maintaining the water user accounts within the Village's accounting software. The Clerk is also solely responsible for preparing a list of the unpaid water accounts to be re-levied on the following year's real property tax bills. Additionally, the Board has not met its oversight responsibility by requiring the Clerk to prepare and submit periodic billing and collection reports or by conducting a review of unpaid bills reported to the County. Furthermore, the Board has not conducted an annual audit of the Clerk's records and reports. As a result, there is an increased risk that improper billings may occur, or that money could be received and not recorded or deposited, without detection.

Recordkeeping – The Clerk is responsible for maintaining accurate and complete records of water rent billings and collections, including interest and penalties. The Clerk should document all payments received, maintain a detailed record of each transaction on a daily basis and record interest and penalties separately from water rents. The Clerk must also ensure that daily cash receipts correspond to the total amount deposited for that day and document the date that he made the deposit. Furthermore, the Clerk is responsible for performing periodic reconciliations of amounts billed with amounts received and unpaid for each billing.

We found the Clerk did not maintain accurate and complete accounting records of water rents billed or collected. The Clerk maintains the customer and billing records using the Village's computerized accounting software. Payments received are first recorded in the Clerk's manual cash receipts journal which contains the last name of the payee, amount paid, and type of revenue (i.e., water rents or interest on water rents). However, the Clerk does not record the

customer account for which the payment was received, the quarter<sup>5</sup> for which the payment was received or the type of payment (cash or check). Furthermore, according to the Clerk, the date he records in the cash receipts journal may not actually represent the payment date because he typically allows payments to accumulate for a period of time before recording them in the accounting records. The Clerk then enters payments in the computerized accounting software using the entry date as the payment date. However, according to the Clerk, problems in the software make these records unreliable.

The Clerk does not perform periodic reconciliations of amounts billed with amounts paid and unpaid, and we found the Clerk's records would not be sufficient to allow him to perform such a reconciliation. According to the Clerk, when a payment is made, he places the bill for that customer's account in a drawer in his file cabinet and keeps all unpaid bills in a binder. He then uses the bills in the binder to prepare the list of unpaid accounts to remit to the County for re-levy. This list of unpaid accounts is not reconciled with any source documents or reviewed by any officials independent of the billing and collections process.

To determine whether water rents were properly billed and collected and payments were accurately recorded in customer accounts, we compared amounts billed with payments recorded in the Clerk's cash receipts journal, which generally corresponds with deposits. We then identified amounts unpaid for each customer account and compared amounts unpaid, according to our calculations, with the Clerk's unpaid list reported to the County. According to billing records provided by the Clerk, the Village billed 135 customers for water in the 2010-11 and 2011-12 fiscal years. Due to the Clerk's inadequate records,<sup>6</sup> we could not determine the total payments recorded and deposited for 10 customer accounts in the 2010-11 fiscal year and four customer accounts in the 2011-12 fiscal year.

In the 2010-11 fiscal year, of the 125 remaining customer accounts which were billed \$78,492, we found 38 customer accounts included unpaid amounts that were not properly re-levied.

- Twenty-four customer accounts included unpaid amounts that were under-reported to the County. These bills included \$2,754 in unpaid amounts (including penalties) that the

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<sup>5</sup> Water rents are billed quarterly.

<sup>6</sup> The Clerk does not consistently record in his cash receipts journal the customer account for which a payment was made. As a result, the only identifying information was the payee's last name. For some customers who have multiple accounts with the Village, we could not determine which payments were made for the various accounts.

Clerk reported to the County. However, we reconciled the amounts paid according to the Clerk's cash receipts journal and found \$12,065 should have been reported to the County for re-levy. Therefore, the Clerk under-reported the unpaid amounts by \$9,310. For example, one customer was billed \$1,056 and payments recorded for this customer totaled \$528 but the Clerk did not report the remaining \$528 unpaid with applicable interest and penalties to the County for re-levy.

- Fourteen customer accounts included unpaid amounts that were over-reported to the County. These bills included \$5,359 in unpaid amounts (including penalties) that the Clerk reported to the County for re-levy. However, we found only \$2,391 should have been reported as unpaid and re-levied. Therefore, the Clerk over-reported the unpaid amounts by \$2,967. For example, we found one customer was billed \$880 and, according to the Clerk's cash receipts journal, this account was paid in full. However, \$459 was reported to the County for re-levy for this customer.

In 2011-12, of the remaining 131 customer accounts which were billed \$81,242, we found 34 customer accounts included unpaid amounts that were not properly re-levied.

- Twenty-five customer accounts included unpaid amounts that were under-reported to the County. These bills included \$2,504 in unpaid amounts (including penalties) that the Clerk reported to the County. However, we reconciled the amounts paid according to the Clerk's cash receipts journal and found \$14,046 should have been reported to the County for re-levy. Therefore, the Clerk under-reported the unpaid amounts by \$11,542. For example, one customer was billed \$440. According to the Clerk's cash receipts journal, no payments were made for this account. However, the Clerk did not report any amount unpaid for this account.
- Nine customer accounts included unpaid amounts that were over-reported to the County. These bills included \$4,652 in unpaid amounts (including penalties) that the Clerk reported to the County for re-levy. However, we found only \$2,348 should have been reported as unpaid and re-levied. Therefore, the Clerk over-reported the unpaid amounts by \$2,304. For example, one customer was billed \$880. According to the Clerk's cash receipts journal, payments totaling \$660 were made for this account. However, the Clerk reported \$711 to the County as unpaid.

As a result of the Clerk's poor recordkeeping practices, customer accounts were not accurate and were not accurately re-levied for unpaid water rents. In total, the Clerk under-reported the amount due for some customers by \$20,852 and over-reported the amount due by other customers by \$5,271 during our scope.

Interest and Penalties – According to Village Local Law, water rents unpaid for more than 30 days bear a penalty of \$10 for the first month and an additional 2 percent for each month thereafter. To determine whether interest and penalties were properly collected, we selected a random sample of 10 deposits likely to contain past due water rents<sup>7</sup> and information from both the Clerk's cash receipts journal and the computerized accounting software to determine whether interest and penalties were due and collected. We found 104 bills totaling \$17,369 were paid in the 10 deposits reviewed. Of the 104 bills, we found 36 for which we could not determine whether any interest and penalties should have been assessed due to the Clerk's poor recordkeeping practices.<sup>8</sup> Of the remaining 68 bills, totaling \$11,649, 66 should have included interest and penalties totaling \$1,045. The Clerk only collected \$77 of interest and penalties for seven of those bills and failed to collect the remaining \$968 in interest and penalties.

The Board and Mayor's lack of oversight of water rent billing and collections allowed the Clerk to maintain inadequate and inaccurate records, inappropriately re-levy water rents and collect insufficient amounts of interest and penalties.

## Recommendations

6. The Board should segregate duties within the tax collection process so that one individual is not responsible for receiving, recording and depositing moneys. When segregating duties is not possible, the Board should implement adequate mitigating controls over the tax collection process.
7. The Board should provide adequate management oversight of the Collector's operations, including auditing Collector records on an annual basis and reviewing monthly reports and finalized tax rolls to ensure completeness and accuracy.
8. The Collector should develop a system of recording tax payments that ensures each payment received is properly recorded, including appropriate interest and penalties.

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<sup>7</sup> Deposits made during the months when water rents would not be paid without penalty

<sup>8</sup> The Clerk's records do not contain detail of the quarter for which a payment is being made or the account number.

9. The Collector should provide the Board with a monthly accountability for taxes receivable.
10. The Board should segregate billing and collecting duties for water rents. When segregating duties is not possible, the Board should implement mitigating controls over the billing and collecting of water rents.
11. The Clerk should maintain appropriate, accurate and complete records that detail water rent billings and collections.
12. The Board should require the Clerk to prepare and submit periodic reports of water rents billed, collected and unpaid.
13. The Board should conduct an annual audit of the Clerk's records for water rent billing and collection.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



## VILLAGE OF DELANSON

MAYOR  
SALLY E. BURNS

BOARD OF TRUSTEES  
DIANNE H. GRYGAS  
GAYLE GIFFORD

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CAROL BOYD

February 26, 2013

[REDACTED]  
[REDACTED]  
NYS Office of the State Comptroller  
Division of Local and School Accountability  
One Broad Street Plaza  
Glens Falls, New York 12801

Dear [REDACTED]

This letter shall serve as the required acknowledgement of the Comptroller's draft audit of *Internal Controls Over Selected Financial Operations for the period June 1, 2010 – April 30, 2012*. The Board of Trustees joins me in the goal of implementing the recommendations outlined in the draft report, by developing policies and procedures which meet the criteria of enhanced internal controls and best practices for each area of opportunity.

Throughout the audit, it was a pleasure to work with Examiner [REDACTED]. Conversations between [REDACTED] and Village Officials (to include Board members, Village Clerk and Village Treasurer) provided recommendations which were immediately implemented. The Board generally agrees with the findings included in the report and anticipates formulating a Corrective Action Plan (CAP) within the coming weeks.

On behalf of the Board of Trustees of the Village of Delanson, we extend our appreciation for the time and effort put forth by the Comptroller's office. We look forward to working further with your office as we prepare our CAP.

Sincerely,

Sally E. Burns  
Mayor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Village officials, tested selected cash disbursements, and real property taxes and water rent records and transactions, and examined pertinent documents for the period June 1, 2010, through April 30, 2012. Our examination included the following:

- We interviewed Village officials to obtain an understanding of the Village's cash disbursement practices.
- We obtained and reviewed the Village's procurement policy and code of ethics.
- We selected a random sample of 30 claims processed through the Village's accounts payable cycle and reviewed them to determine whether they were adequately documented and were audited and approved by the Board.
- We reviewed the Village's check register to determine the number of disbursements made by hand-drawn checks.
- We selected and reviewed a random sample of 30 checks from the Village's check images to determine whether disbursements were made for appropriate purposes.
- We interviewed Village officials to obtain an understanding of the Village's real property tax and water rent billing and collection processes.
- We reviewed a random sample of 10 deposits of real property tax payments made after they were due and calculated the amount of interest and penalties due. We then compared the interest and penalties due with the interest and penalties paid and identified any discrepancies.
- We reviewed a random sample of 10 deposits of real property taxes to determine whether they were made timely and intact. We also reviewed these 10 deposits to determine whether the associated payments were properly recorded.
- We obtained and reviewed local laws, Board resolutions and Village policies pertaining to water rent fees, penalties and interest and the timely deposit of water rents.
- We reviewed a random sample of 10 deposits of water rent payments made after they were due and calculated the amount of interest and penalties due based on the Village's local laws pertaining to interest and penalties on water rents. We then compared the interest and penalties due with the interest and penalties paid according to the Clerk's cash receipts journals and identified discrepancies.

- We interviewed the Clerk to determine his practices for recording water rent payments. We also selected a random sample of two months of water rent collections and reviewed the Clerk's cash receipts journals to determine whether the payments were properly recorded.
- We selected a random sample of 10 deposits of water rent payments and reviewed them to determine whether they were deposited timely, in accordance with Village policy and intact.
- We reconciled water rent amounts billed and paid according to the Clerk's cash receipts journal for all customers billed in 2010-11 and 2011-12 and identified amounts unpaid. We then compared amounts unpaid with the Clerk's record of unpaid accounts as reported to the County for re-levy and identified discrepancies.

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 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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