



# Village of Dresden

## Clerk-Treasurer's Duties and Multiyear Financial Planning

### Report of Examination

Period Covered:

June 1, 2010 — November 15, 2012

2013M-3



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>EXECUTIVE SUMMARY</b>	3
<b>INTRODUCTION</b>	5
Background	5
Objective	5
Scope and Methodology	5
Comments of Local Officials and Corrective Action	5
<b>CLERK-TREASURER’S DUTIES</b>	7
Recommendations	8
<b>MULTIYEAR FINANCIAL PLANNING</b>	9
Recommendations	10
<b>APPENDIX A</b> Response From Local Officials	11
<b>APPENDIX B</b> Audit Methodology and Standards	13
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	15
<b>APPENDIX D</b> Local Regional Office Listing	16

# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

April 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 Dresden, entitled Clerk-Treasurer's Duties and Multiyear Financial Planning. 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 Dresden (Village) is located in the Town of Torrey (Town), in Yates County, and has a population of 308. The Mayor and the Board of Trustees (Board) are responsible for the overall management of the Village. The Mayor is the chief executive officer, and the Village Clerk-Treasurer (Clerk-Treasurer) is the chief fiscal officer. Budgeted appropriations for the 2012-13 fiscal year were \$287,914 for the general fund and \$140,900 for the water fund, which are funded primarily with real property taxes and user charges.

### **Scope and Objective**

The objective of our audit was to review the Board's oversight of the Village's financial activities. Our audit addressed the following related questions:

- Did the Board provide appropriate oversight of the Clerk-Treasurer?
- Has the Board developed a long-term financial plan for the Village's general and water funds and maintained reasonable fund balances?

### **Audit Results**

The Board did not segregate the Clerk-Treasurer's duties or provide additional oversight as a compensating control, and did not properly plan or monitor the Village's finances.

The Clerk-Treasurer is responsible for collecting, recording, and depositing cash, recording disbursements, preparing claims abstracts, signing checks, and reconciling bank accounts. In addition, the Clerk-Treasurer processes water billings and collects, records, and deposits water rents. The Board did not institute compensating controls and did not audit the Clerk-Treasurer's records as required. Although our tests of financial transactions found no significant discrepancies, these control weaknesses place the Village at an increased risk of errors and irregularities.

We also found that the Board did not develop a long-term financial plan or adequately monitor the Village's water fund. As a result, the water fund's year-end fund balance increased from \$76,272 to \$194,688 from fiscal years 2007-08 to 2011-12, and is now equal to 168 percent of annual expenditures. Village officials have not addressed the intended use of these excess funds and have not reviewed water rates to assess their reasonableness.

Without fulfilling these responsibilities, the Board does not have a clear picture of the Village's financial position, and is not well equipped to ensure ongoing fiscal stability.

**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 findings and recommendations and indicated they would initiate corrective action.

# Introduction

## Background

The Village of Dresden (Village) is located in the Town of Torrey (Town), in Yates County, and has a population of 308. The Village is governed by an elected Board of Trustees (Board) which comprises a Mayor, who is the chief executive officer, and two Trustees. The Board is the legislative body responsible for the general oversight of the Village's operations, including establishing internal controls over financial operations and maintaining sound financial condition. The Village Clerk-Treasurer (Clerk-Treasurer) is the chief fiscal officer and is responsible for the custody of Village moneys, maintaining accounting records, and preparing monthly and annual financial reports.

The Village provides water to Village and Town residents, using water purchased from the Village of Penn Yan. Budgeted appropriations for the 2012-13 fiscal year were \$287,914 for the general fund and \$140,900 for the water fund, which are funded primarily with real property taxes and user charges.

## Objective

The objective of our audit was to review the Board's oversight of the Village's financial activities. Our audit addressed the following related questions:

- Did the Board provide appropriate oversight of the Clerk-Treasurer?
- Has the Board developed a long-term financial plan for the Village's general and water funds and maintained reasonable fund balances?

## Scope and Methodology

We examined the Village's financial management and internal controls over the Clerk-Treasurer's records and reports for the period June 1, 2010 to November 15, 2012. We extended the scope of our audit to review financial information for the water fund for fiscal years 2007-08 through 2009-10.

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 findings and recommendations and indicated they would 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 to make this plan available for public review in the Clerk-Treasurer's office.

## Clerk-Treasurer's Duties

The Board is responsible for managing and overseeing the Village's overall fiscal affairs and safeguarding its resources. This responsibility includes establishing a system of internal controls to provide reasonable assurance that cash and other resources are properly safeguarded. It is therefore important for the Board to establish adequate policies and procedures, institute appropriate internal controls over the Clerk-Treasurer's duties, and adequately monitor budgets and financial reports throughout the year.

An effective system of internal controls provides for the segregation of duties so that no one individual controls all phases of a transaction. The same person should not have the ability to authorize, execute, and record a transaction or control the entire cash receipt and disbursement process. Proper segregation of duties aids in the prevention and timely detection of errors and fraudulent activity. When sufficient segregation of duties is not possible, the Board should provide sufficient oversight by implementing compensating controls – for example, by regularly reviewing bank statements, canceled checks, cash receipts records, and reconciliations, and comparing them to the monthly records provided by the Clerk-Treasurer. Additionally, the Board should audit, or cause to be audited, the Clerk-Treasurer's records to ensure their completeness and accuracy. The results of this audit should be documented in the Board minutes.

We found that Board policies and procedures failed to properly establish internal controls or provide for oversight of the Clerk-Treasurer, whose duties are not adequately segregated. The Clerk-Treasurer is responsible for collecting, recording, and depositing cash, recording disbursements, preparing abstracts, signing checks, and reconciling bank accounts. The Board has not instituted sufficient compensating controls such as Board review of bank statements or reconciliations. Additionally, the Clerk-Treasurer is solely responsible for entering water billing information, printing water bills, collecting water rents, and recording and depositing all moneys without oversight from the Board or Superintendent of Public Works.<sup>1</sup> The Clerk-Treasurer also adds new customers to the water billing program and makes adjustments to their accounts without Board approval or review. Finally, the Clerk-Treasurer maintains her own leave accruals and initiates and approves all direct-deposit transactions.

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<sup>1</sup> The Superintendent of Public Works is responsible for overseeing the Water Department.

Due to the lack of oversight, we reviewed six months of non-water cash receipts, totaling approximately \$75,000, to ensure they were deposited in Village bank accounts; tested 117 randomly selected customer accounts for two water billing cycles to verify if the correct amount was billed to customers based on use, and if accounts receivable were properly recorded in the accounting software; and reviewed six months of cash disbursements, including payroll and related banking transactions, to ensure they were for appropriate Village business purposes. We did not find any significant discrepancies.

In addition, although Village officials told us they contract each year for a review of the Clerk-Treasurer's records, they do not record the results of this review in the Board minutes. We reviewed the results of the fiscal year 2011-12 review, as reported by the contractor, and did not identify any irregularities.

Although our examination did not find any significant discrepancies, this does not diminish the need for the Board to establish comprehensive policies and procedures to provide guidance and accountability over financial functions. Such policies should include an adequate segregation of financial duties and oversight of the Clerk-Treasurer's work to ensure that moneys received are properly deposited and to reduce the risk of unauthorized payments or transfers.

## **Recommendations**

1. The Board should implement policies and procedures that incorporate compensating controls to routinely monitor and review the work of the Clerk-Treasurer as a means to mitigate the risks associated with the lack of segregation of duties.
2. The Board should document in the Board minutes the results of its annual audit of the Clerk-Treasurer's records.

## Multiyear Financial Planning

A multiyear financial plan projects revenues and expenditures for several years into the future. Unlike annual budgets, it does not authorize expenditures (although it should be linked to the current budget). Instead, a long-term financial plan projects a municipality's ability to pay for and provide services, given a set of policy and economic assumptions. These projections help the Board assess expenditure commitments, revenue trends, financial risks, and the affordability of new services and capital investments. Essential elements of a good financial plan include projections of revenues and expenditures, estimates and planned actions on shortfalls and surpluses, and the funding and use of legal reserves. Village officials can then decide what program funding choices to make in advance, avoiding sudden rate increases or dramatic budget cuts.

The Board has failed to implement or even address the need for a financial plan. We reviewed the level of fund balance in the water fund (Table 1) and interviewed Village officials to determine the Board's intended use of available fund balance. We found that year-end fund balance more than doubled from fiscal years 2007-08 to 2011-12 and is now equal to 168 percent of annual expenditures. Further, the Board did not budget any fund balance in the 2012-13 budget and budgeted revenues and expenditures are in line with prior years' budgets; therefore, based on historical trends, the Village will likely experience another operating surplus, further contributing to the excessive fund balance. Elected officials acknowledged the excessive level of fund balance and stated there had been no discussion about its intended use, nor have they taken action to review water rates to assess their reasonableness. We also reviewed the fund balance of the Village's other operating account (general fund) and determined the average fund balance over the last five years was 23 percent of annual expenditures, which appears reasonable.

Fiscal Year	2007-08	2008-09	2009-10	2010-11	2011-12
Beginning Fund Balance	\$81,438	\$76,272	\$100,933	\$141,622	\$173,012
Actual Revenues	\$114,089	\$133,203	\$145,725	\$149,284	\$137,374
Actual Expenditures	\$119,255	\$108,542	\$105,036	\$117,894	\$115,698
Operating Surplus	(\$5,166)	\$24,661	\$40,689	\$31,390	\$21,676
Ending Fund Balance <sup>a</sup>	\$76,272	\$100,933	\$141,622	\$173,012	\$194,688

<sup>a</sup> The Village did not appropriate any fund balance over the last five years.

Without a plan for the use of fund balance, the Board cannot justify the existence of these moneys, and cannot effectively assess the rates necessary to offer water services at their current level without overburdening ratepayers. Additionally, the Board will not be able to effectively address future demands on these funds and make informed decisions regarding their use.

## **Recommendations**

3. The Board should establish a multiyear financial plan to better manage the Village's finances, and monitor and update the plan on an ongoing basis.
4. The Board should review the Village's water rates to assess their reasonableness.
5. Village officials should use the excess funds identified in this report in a manner that benefits Village taxpayers. Such uses could include:
  - Reducing property taxes
  - Reducing water user charges
  - Funding necessary reserves
  - Financing one-time expenses.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

Corporate Village of Dresden  
Yates County  
PO Box 156, 3 Firehouse Avenue  
Dresden, NY 14441

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[dvillageofdres@rochester.rr.com](mailto:dvillageofdres@rochester.rr.com)  
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April 1, 2013

Edward V. Grant, Jr.  
Chief Examiner  
Office of State Comptroller  
110 State Street  
Albany, NY 12236

Dear Mr. Grant:

The Village of Dresden Board of Trustee is acknowledging the Draft Copy of the Village of Dresden Audit (2013M-3).

The Village Board will be working on a plan to address any concerns brought to light in the Audit. This plan will be submitted to your office as soon as completed.

If you have any questions please do not hesitate to contact the Village Office.

Sincerely,

William Hall  
Mayor

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Washington, D. C. 20250-9410, or Call (800) 795-3272 (voice) or 202-720-6382 (TDD)

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets. In order to accomplish this, we performed an initial assessment of Village operations so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, control environment, accounting system, cash management, cash receipts and disbursements, purchasing, claims processing, payroll, user charges, real property taxes, information technology, and Board oversight.

During the initial assessment, we interviewed Village officials and employees, performed limited tests of transactions, and reviewed pertinent documents such as adopted policies and procedures, Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for inherent control risks. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected Village's internal controls over financial operations related to Board oversight for further audit testing.

To accomplish our audit objective, we interviewed Village officials and employees to obtain an understanding of internal controls. We reviewed various records and reports including general ledgers, budgets, balance sheets, bank statements, and other supporting documentation to ensure that annual financial reports were complete, supported by accounting records, and filed timely. We also performed the following procedures:

- We scanned through the check images received on the bank statements for the general fund, water fund, and trust and agency fund for a randomly selected period of time. We tested six randomly selected months (using a random sample generator) from the 2010-11 and 2011-12 fiscal years. We reviewed these check images for unusual payments, amount, or vendors.
- We randomly selected (using a random sample generator) two quarters from the 2010-11 and 2011-12 fiscal years to test. For these quarters, we obtained the general fund bank statements and traced the checks listed on the bank statements to the check images; looking for differences in amounts, we then traced the vendor and amount listed on the canceled check to the general ledger<sup>2</sup> (GL) report ensuring the check, amount and vendor are listed correctly. We traced the GL report information to a voucher to verify the amount, vendor and proper Board approval.
- Using a random sample generator, for two randomly selected water billing cycles from the 2010-11 and 2011-12 fiscal years and for a randomly selected group of customers totaling 50 percent of all customers, we obtained a copy of the master billings and traced the water meter reading amounts to the master billing. We recalculated the water rents due to ensure proper calculation based on the Board-adopted water rate structure. We traced total master billing amounts to the journal entry establishing the water rents receivable in the financial software.

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<sup>2</sup> The General Ledger report shows all transactions for Village revenues and expenses, including the vendor/customer name, date, amount, transaction description, and check number if applicable.

- For a randomly selected six-month period of time (using a random sample generator), we traced (non-water) cash receipts from the manually maintained cash receipt log to the duplicate receipt, the general ledger, the duplicate deposit tickets, and the general fund bank statements; ensuring all cash receipts annotated were properly recorded and deposited.
- For a randomly selected billing cycle using a random sample generator (water is billed every two months), we obtained the manually maintained water receipts register. Additionally, we obtained the master billing for that period. We reviewed 100 percent of all customers and judgmentally identified those who did not make a payment during the period, based on the likelihood that unpaid amounts could possibly be zeroed out. We obtained a master billing report for the next consecutive billing cycle and ensured unpaid amounts and applied late fees were billed to the customers.
- For a randomly selected two-month period (using a random sample generator), we traced 100 percent of all payroll payments to individuals from time cards or Board resolutions to the payroll report to determine the reliability of the payroll reports.
- For a randomly selected year (using a random sample generator), we reviewed payrolls for proper certification by a department head/Mayor. We also traced payroll amounts to the trust and agency account report and to the trust and agency bank statement. We verified proper amounts and that only payments on a properly certified payroll existed.
- We reviewed contracts and quarterly bills for amounts owed to the Village of Penn Yan for water provided. We scheduled out all payments to identify timing and determine the correct amount to be recorded as liabilities on the financial reports at year end.

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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