



Village of Middleburgh Fiscal Operations

Report of Examination

Period Covered:

June 1, 2011 — October 15, 2012

2013M-10



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

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 Village Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Village of Middleburgh, entitled Fiscal 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*

Introduction

Background

The Village of Middleburgh (Village) is located in Schoharie County. The Village has approximately 1,500 residents and provides various services including water distribution, sewage treatment, road maintenance and snow removal, cemetery, and general government support. The Village's annual budget for the 2011–12 fiscal year was \$1 million, funded mainly from real property taxes, non-property tax distributions, and water and sewer fees.

The Village is governed by a Mayor and four Trustees who form the Village Board (Board). The Board is responsible for overseeing the operations and finances of the Village. The Clerk-Treasurer is responsible for collecting, recording and depositing receipts for real property taxes, cemetery plot sales, water sewer user charges, permits, State aid and donations. She also is responsible for paying claims submitted by vendors after the Board audits and approves each claim and reviews the abstract (list of claims to be paid), and for reviewing payrolls and water/sewer billings, and signing checks. The Deputy Clerk-Treasurer (Deputy) is responsible for preparing water/sewer bills, disbursements, and payroll. She also collects, records, and deposits receipts for taxes and water and sewer user charges.

Objective

The objective of our audit was to review selected financial activities. Our audit addressed the following related questions:

- Did the Board and the Mayor ensure that money due to the Village was properly collected and that all vendor payments were for proper Village purposes?

Scope and Methodology

We examined the fiscal operations of the Village for the period of June 1, 2011, to October 15, 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 to make this plan available for public review in the Clerk-Treasurer's office.

Fiscal Operations

The Board and Mayor are responsible for the oversight of financial operations and making sure that policies and procedures are in place to safeguard financial resources. The Board fulfills this responsibility in part by ensuring that controls are in place to verify that financial transactions are properly authorized, recorded, and reported, and by annually auditing the records and reports of officers and employees that receive or disburse Village funds.

The Board and the Mayor did not meet their fiscal oversight responsibilities. For example, they did not realize that they were required to annually audit the Clerk-Treasurer's records and reports and, therefore, did not audit any of the Clerk-Treasurer's receipt or disbursement records. In addition, they have allowed the Clerk-Treasurer and Deputy to perform all of the financial functions including billing, collecting, recording and depositing cash receipts, and printing and signing checks, without anyone verifying the accuracy and completeness of the work they perform. As a result, no one can be sure that all money received is deposited in a Village bank account and that all disbursements are for proper Village purposes.

Cash Receipts — The Clerk-Treasurer and Deputy both have the ability to collect money and not deposit it in a Village bank account. The Clerk-Treasurer collects, records, and deposits moneys from cemetery plot sales and real property taxes. The Deputy bills, collects and records water and sewer payments. All of these duties are performed without sufficient oversight. Although the Clerk-Treasurer compares a list of unpaid water and sewer bills, prepared by the Deputy, to what is recorded in the accounting system, no one verifies that all receipts that were recorded were deposited. Similarly, the Board approves a list of unpaid real property taxes, prepared by the Clerk-Treasurer, to be submitted to the County Treasurer's Office for re-levying and enforcement, but does not compare that list to the Clerk-Treasurer's tax collection records. Finally, the Deputy handles the documentation regarding ownership of the cemetery plots, but no one compares the deeds issued with money collected from the sale of the plots.

The Mayor and Clerk-Treasurer told us that these duties have been performed in this manner for decades without any issues being identified; thus, the assignment of these duties continues. We reviewed cash receipt records, bank statements, bank reconciliations and unpaid lists for real property taxes and water and sewer accounts prepared

during our audit period.¹ Although our review verified that bills were accurate and that money recorded was deposited, a significant risk exists that errors or irregularities may occur without detection.

Cash Disbursements — The Clerk-Treasurer has the ability to print and sign checks without oversight. Although the Board approves claims for payment each month, and each check should have both the Mayor and Clerk-Treasurer’s signatures, no one verifies that only checks approved by the Board are issued. The Deputy does reconcile the cash balances per the bank with the cash balances in the accounting records, in turn verifying that the recorded activity agrees with the bank activity. However, no one verifies the recorded activity by comparing the checks written and signed to the vouchers approved in the Board minutes, or verifies that all checks are supported by claims approved by the Board.

We reviewed canceled check images for four months and compared the value of non-payroll checks in the accounting software to claims approved in the Board minutes for the 2012 fiscal year. All checks that cleared the bank were signed by the Mayor and Clerk-Treasurer and were for proper expenses. However, the non-payroll checks that cleared the bank and were recorded in the accounting record totaled \$1,300 more than the total checks approved in the Board minutes.

The Mayor did not recognize the risk that exists when the Clerk-Treasurer performs these disbursement duties without sufficient oversight. Moreover, the Board members did not realize that they were required to annually audit the Clerk-Treasurer’s records and reports² and, therefore, did not audit any of the receipt or disbursement records. Instead, they relied on the personal integrity of the Clerk-Treasurer and Deputy. The failure to provide oversight over cash receipts and disbursements increases the risk that receipts will not be properly recorded and deposited and that payments will not be for proper Village purposes.

Recommendations

1. The Board and Mayor should ensure that proper controls and oversight are in place, especially when one person performs all aspects of a financial function.
2. The Clerk-Treasurer should design procedures and processes that include a review of the work performed by her and the Deputy to verify that all money received is properly recorded and deposited.

¹ See Appendix B

² The Board’s annual audit should include a verification that all moneys due the Village are collected and deposited and that all disbursements are for proper Village purposes and have been approved prior to their payment.

3. The Board should audit the financial records of the Clerk-Treasurer, at least annually, to verify that all moneys due the Village are collected and deposited and that all disbursements are for proper Village purposes and have been approved prior to their payment.
4. The Mayor should ensure that the Clerk-Treasurer is properly collecting, recording and disbursing Village funds.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



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Clerk and Treasurer

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Superintendent Public Works

Sheryl A. Adams

Thomas Gruning

William B. Morton

Robert W. Tinker

Trustees

April 12, 2013

To whom it may concern,

On behalf of the Village of Middleburgh, I accept the finding of the Comptroller's Office regarding the recent audit. Please let me know if we can help any further.

Best wishes. 

 Mayor Matthew Avitabile

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed Village officials and employees, reviewed policies, records, and reports, and examined documents for the period of June 1, 2011, to October 15, 2012. Our examination included the following:

- We had discussions with Village officials and staff members to gain an understanding of the Clerk-Treasurer's and Deputy's job duties related to billings, cash receipts and cash disbursements.
- We had discussions with Village officials and staff members to gain an understanding of internal controls over the Clerk-Treasurer's office regarding receipts and disbursements.
- We traced all cash receipts for July 2011, November 2011 and August 2012 (selected randomly) from the accounting records to bank statements to verify receipts were properly recorded and deposited.
- We reviewed May 2012 and September 2012 bank reconciliations for the trust and agency fund, general fund and sewer fund accounts to determine if the reconciliations were performed properly and completely. We selected May 2012 because it was fiscal year end and September 2012 because it was the most recent month completed in the current fiscal year.
- We traced all deposits on the August 2011 and June 2012 bank statements (selected randomly) to the accounting records to verify they were properly recorded and supported.
- We verified that the unpaid list of water and sewer accounts was accurate by comparing the outstanding list generated by the water and sewer software to the relevy list provided to the county. We also reviewed copies of deeds for our scope period and traced deeds to the accounting records and the cemetery plot map.
- We verified that water and sewer payments were properly recorded and deposited by tracing receipts from the water/sewer software to bank statements. If late payments occurred,³ we recalculated the penalties due, to ensure the payments had the proper penalties applied and collected.
- We sampled every other check image for the July 2012 bank statements (selected randomly) for all accounts and traced those payments to supporting documentation to determine if they were proper Village expenses.
- We scanned canceled check images for the months of August 2011, December 2011 and June 2012 (selected randomly) to look for any checks in the name of Village officials and traced

³ Water and sewer billings are due within 30 days. Amounts received thereafter are subject to a penalty equal to 10 percent of the current charge.

those payments to supporting documentation to determine if they were for proper Village expenses.

- We compared the total value of checks in the Village's accounting software to claims approved in the Board minutes to determine if the values of Board-approved disbursements were recorded properly. We compared these amounts to the corresponding totals of checks that cleared the bank for the 2012 fiscal year to determine if only Board-approved payments were disbursed by the Clerk-Treasurer.

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.

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