



Village of Richmondville

Disbursements

Report of Examination

Period Covered:

June 1, 2011 — July 16, 2012

2012M-178



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 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 Richmondville, entitled Disbursements. 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 Richmondville (Village) is located in the Town of Richmondville in Schoharie County. The Village has 918 residents and provides various services, including water distribution, sewage treatment, road maintenance and snow removal, electricity, and general government support. The Village's annual budget for 2012-13 is approximately \$1.95 million, funded mainly from real property taxes, State and Federal aid, and various user fees. As of June 27, 2012, there were eight full-time, 12 part-time, and six seasonal employees. During our audit period, Village officials made 1,364 non-payroll disbursements totaling approximately \$2.1 million and paid almost \$487,000 in gross payroll.

The Village Board (Board) comprises five elected Trustees, which includes the Mayor. The Board governs the Village and is responsible for the general management and control of the Village's finances and operations. The Mayor serves as the Village's chief executive officer. The Clerk-Treasurer, who is appointed by the Board, serves as the Village's chief fiscal officer. She is responsible for the custody of all Village money, maintaining accounting records, signing checks, processing payroll, preparing bank reconciliations, preparing financial reports, and keeping a record of Board proceedings. The Board also appointed two part-time Deputy Clerk-Treasurers (First and Second), who assist the Clerk-Treasurer in fulfilling these duties. Additionally, the Board has hired a third-party payroll vendor to provide software, and process and print payroll checks.

Objective

The objective of our audit was to ensure that the Board and Mayor properly monitored the Village's fiscal operations. Our audit addressed the following related question:

- Did the Board and the Mayor ensure that only authorized disbursements were made?

Scope and Methodology

We examined Village disbursements for the period June 1, 2011 to July 16, 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 C 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 take corrective action. Appendix B includes our comments on the issues raised in the Village's response letter.

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.

Disbursements

The Board and Mayor are responsible for the general management and control of the Village's finances and operations, and the protection of Village assets. The Board and Mayor must ensure that all payments to employees have documented Board approval and that the amounts withheld for health insurance are correct. All claims must be listed on approved abstracts and audited by the Board, prior to payment, unless otherwise authorized by law.¹

The Board and Mayor did not ensure that only authorized disbursements were made. For example, payments totaling \$1,386 were made to the Clerk-Treasurer without Board approval and all employees had the wrong amounts withheld for health insurance. In addition, 447 checks totaling approximately \$325,000 were inappropriately paid prior to Board audit.

There is a lack of segregation of duties within the payroll and disbursement processes and only limited oversight of the Clerk-Treasurer and her staff. For example, the Clerk-Treasurer and the Second Deputy have full user access to the payroll system and, therefore, have the ability to perform all functions within payroll. Furthermore, the Clerk-Treasurer and her two deputies can perform all functions within the financial software used to record non-payroll disbursements, including recording and printing checks. All three can also sign checks and perform online transfers. The Clerk-Treasurer also prepares the bank reconciliations.

There is also a lack of adequate oversight by the Board and Mayor. We found the following problems with the Village's disbursements:

Payroll and Health Insurance — In December 2011, the Clerk-Treasurer's pay rate was increased by \$1 per hour without documentation of Board approval;² this resulted in the Clerk-Treasurer being overpaid by \$1,386. The Second Deputy Clerk-Treasurer told us that the change in the Clerk-Treasurer's pay rate should have been documented in a personnel change form, but she could not find any such change form. Village officials informed us that the Clerk-Treasurer's pay raise was subsequently approved by the Board through a resolution. However, the fact that this occurred and was not detected until we audited demonstrates

¹ Certain claims may be paid prior to Board audit (e.g., fixed salaries, debt service, public utility services, postage, freight and express charges). All other claims require Board approval before their payment.

² When we informed Village officials of the lack of documentation of Board approval, the Board members passed a resolution to retroactively approve the Clerk-Treasurer's increased pay rate, which they indicate was already verbally approved.

the risk that occurs by having a lack of segregation of duties and shows a need for better documentation and verification of pay rates.

In addition, all employees had the wrong amounts withheld from their pay for health insurance during the two payrolls we reviewed. The Clerk-Treasurer was withholding 6 percent of the annual health insurance premiums from employees' pay because, according to her, the Village had always withheld that amount since she began working there. However, the Mayor told us that the Clerk-Treasurer should be following the Village's human resource policy manual, which calls for set dollar amounts to be withheld depending on whether the employee has individual or family coverage.³ Although the differences were minimal, this illustrates that errors were occurring and not being detected in a timely manner.

Payments Prior to Audit — The Village issued 596 checks totaling \$1.3 million prior to Board audit, of which 97 were utility payments totaling approximately \$16,400 were not allowed per their Board resolution and 350 checks totaling approximately \$308,600 were not allowed by law. The 350 payments included 22 checks totaling \$77,780 for health insurance premiums, 92 checks totaling \$27,400 for supplies, five checks for insurance premiums totaling \$53,000, 32 checks totaling \$8,520 for refunds of deposits for electric services and 40 checks totaling \$4,000 for reimbursements for travel, clothing allowances, or dental or optical allowances.

These errors occurred because there is not an adequate process to verify that pay rates and withholdings are accurate. In addition, the Board adopted a resolution to approve the payment of various items prior to Board review and approval. However, that resolution included items not allowed by law (e.g., bills that will become delinquent if not paid before the next Board meeting or reimbursements to employees for travel). In addition, although Board members audit and approve all claims presented to them, there is no system to verify that each claim is presented for their review.

Village officials did not adequately implement controls or oversee the duties performed by staff members within the Clerk-Treasurer's office. Therefore, no one can be sure any errors or irregularities that may occur will be detected and corrected. As a result, Village assets are exposed to the risk of loss; for example, payments could be made for illegitimate expenditures.

³ The human resource policy manual states that \$9.89 should be deducted from employees' pay with individual health insurance plans and \$26.20 should be deducted from employees' pay with family health insurance plans.

Recommendations

1. The Board and Mayor should ensure that:
 - The Clerk-Treasurer and Second Deputy do not have full control over the payroll process. If it is not practical to limit their access, mitigating controls should be established.
 - Someone outside of the payroll process verifies that all employees are paid at documented Board-approved pay rates and that withholdings are accurate.
2. The Board and the Mayor should ensure that:
 - The Clerk-Treasurer and her two Deputies should not perform all functions within the financial software for non-payroll disbursements, including recording checks, printing checks, signing checks and performing online transfers. If it is not practical to limit their access, mitigating controls should be established.
 - All the claims are listed on an approved abstract and audited by the Board, prior to payment, unless otherwise authorized by law.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Village of Richmondville

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January 14, 2013

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RE: Village of Richmondville – Disbursements
2012M-178

This letter is in response to the recent OSC audit report for the Village of Richmondville, Schoharie County. It is intended to serve as the Village's response and also the Corrective Action Plan (CAP).

Recommendation 1

- **The Board and Mayor should ensure that the Clerk-Treasurer and Second Deputy do not have full control over the payroll process**

See
Note 1
Page 11

We believe that we do have sufficient mitigating controls in effect over our payroll process. Given the limited staff and part-time status of both Deputies, is not practical to limit the access of the Clerk-Treasurer and Second Deputy. The Second Deputy completes the payroll process which is then reviewed by the Clerk-Treasurer, who is required to sign-off on the payroll. The reports provided for review include a journal which shows the rate of pay and withholdings for each employee, as well as corresponding timesheets showing hours worked which are signed by each employee and their immediate supervisor. Both the Clerk-Treasurer and Second Deputy require full access to the payroll database so that in the event of one's absence, the other can fully execute the process with no interruption in pay or inconvenience to the employees.

- **The Board should ensure that someone outside of the payroll process verifies that all employees are paid at documented Board-approved pay rates and that withholdings are accurate.**

See
Note 2
Page 11

We believe our three-tier oversight procedure currently in effect ensures that employees are paid at documented Board-approved pay rates and that all withholdings are accurate. The Clerk-Treasurer reviews the payroll upon completion by her Second Deputy. Each payroll is also reviewed and certified by the Mayor and Superintendent. Furthermore, an independent CPA periodically reviews payroll records throughout the course of the fiscal year and during the completion of our Annual Report.

*The finding of the Clerk-Treasurer's pay rate not being supported by documented Board approval has been addressed. The pay increase **was** approved at a Board meeting but was not properly documented in the meeting minutes or a personnel change form. Subsequently, Resolution #31-12 was passed at the monthly Board meeting held August 21, 2012, authorizing the wage increase for the Clerk-Treasurer retroactive to the pay period beginning November 17, 2011.*

The discrepancy over the amount withheld for health insurance was also addressed at a special meeting of the Board. This was due to clerical error and misunderstanding that took place subsequent to a change in personnel.

Recommendation 2

- **The Board and the Mayor should ensure that the Clerk-Treasurer and her two Deputies cannot perform all functions within the financial software for non-payroll disbursements, including recording checks, printing checks, signing checks and performing online transfers.**

See
Note 3
Page 11

It is not practical to limit the access of the Clerk-Treasurer and her Deputies. Given the fact that both Deputies only work part-time, it is not conducive to the operations of the office to only have the Clerk-Treasurer capable of performing all tasks within the financial software. In the event of absence of the Clerk-Treasurer, it is necessary to allow her Deputies access to complete critical functions within the financial software.

- **The Board and the Mayor should ensure that all claims are listed on an approved abstract and audited by the Board, prior to payment, unless otherwise authorized by law.**

See
Note 4
Page 11

We strongly disagree with the statement that "Village officials did not adequately implement controls or oversee the duties performed by staff members within the Clerk-Treasurer's office." Each voucher is reviewed by the Clerk-Treasurer. These vouchers are also reviewed and approved by the Superintendent before submission to the Board. The Clerk-Treasurer is then required to provide an abstract of audited vouchers to the Board and Mayor for review at the monthly Board meeting. Each Board member is required to review each individual voucher and its supporting documentation before signing-off on the abstract. This process adequately allows for any questions or inaccuracies to be addressed and corrected immediately upon detection. The Board and I will continue to monitor the check and voucher sequences to ensure that there is no duplication, errors, or misappropriation of funds.

The Clerk-Treasurer is working to develop assurances that proper procedures are implemented with regard to payments prior to audit. It was pointed out to us that payments of certain recurring charges established in Resolution #10-12 require prior approval. As a result, a modified resolution authorizing the payment of certain recurring charges is pending. As Mayor, I will ensure that the disbursements are in accordance with our policy.

Each member of the Village Board of Trustees recognizes and takes seriously their responsibilities. We will continue to engage in conversations about our shared accountability for fiscal procedures. We thank you and your staff for the time and effort put into this audit.

Sincerely,

Kevin P. Neary
Mayor

APPENDIX B

OSC COMMENTS ON THE VILLAGE'S RESPONSE

Note 1

Although the Clerk-Treasurer provides oversight of the Deputies, she has full user access rights to the payroll and could add new employees, change withholdings and pay rates, enter hours worked and sign checks, allowing for the potential of inappropriate transactions to occur.

Note 2

Although the Mayor and the Superintendent sign off on the payroll journals, they both informed us that they were comparing the timesheets to the payroll journals and scanning for any unusual employees. Their review did not include verifying the accuracy of pay rates or withholdings, which can cause errors, such as the ones found during our audit, to go undetected and uncorrected.

Note 3

Mitigating controls should be established if the Village officials feel that segregation of duties is not possible.

Note 4

Although the Board reviews and approves the claims and the abstracts, there currently is no way to ensure that they are auditing and approving all claims prior to their payment. Additionally, changes could be occurring after the abstract is approved and not be detected since the minutes do not detail the claim numbers and amounts approved per the abstract, and there is no comparison of the printed checks to the detail of the approved abstract on a regular basis.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine financial information to determine if only authorized disbursements were made. To accomplish our audit objective and obtain valid and relevant audit evidence, we interviewed appropriate Village officials and tested selected records and transactions, examined pertinent documents and performed the following procedures:

- We interviewed Village officials and employees about existing internal control systems over disbursements including payroll and user access rights to financial software.
- We obtained all canceled check images for our audit period and reviewed them for all payments that were made to the Clerk-Treasurer, the First or Second Deputy, and anyone with the same last name as these employees. We selected all 19 canceled check images made to these individuals, which totaled \$2,050, and traced them to the accounting records, Board-approved abstracts, and the claim packages to determine if they recorded properly, approved, adequately supported and for Village expenditures.
- We selected a non-biased sample of 16 utility disbursements totaling \$11,690 from electronic data obtained from the accounting software, by selecting two payments made to eight higher-paid utility vendors. We traced all 16 disbursements to the canceled check images to determine if they agreed, and to the Board-approved abstracts and claim packages to determine if they were approved, supported, and for Village expenditures.
- We compared Board-approved abstracts to the accounting records and canceled check images for September 2011, which had 92 disbursements totaling \$115,400, and March 2012, which had 81 disbursements totaling \$134,000, to determine if the payee names and amounts agreed.
- We selected the Board-approved abstracts for the consecutive months of November and December 2011, and compared them to the accounting records to verify that all disbursements on the Board-approved abstracts were recorded, and all recorded disbursements were approved by the Board.
- We reviewed the Board-approved abstracts for all disbursements that were paid prior to Board approval from June 1, 2011 to June 19, 2012 to determine which disbursements did not meet the requirements of the Board resolution or Village Law.
- We obtained the check numbers and amounts for the checks that cleared the bank electronically from June 1, 2011 to June 30, 2012 and compared that information to the accounting software's electronically provided check numbers and amounts to determine whether any checks were not recorded properly.
- Using the electronic disbursement information obtained from the accounting software, we reviewed the check sequence for the audit period to determine if there were any checks missing or any duplicate checks within the sequence.

- We reviewed all 105 inter-fund bank transfers, outgoing bank wire transfers, withdrawals and other debits that appeared on the bank statements for June 2011 and June 2012 to determine if all transactions were adequately supported and for Village purposes.
- We selected every odd month of our audit period for up to five months. We then selected one large or unusual journal entry from each of these months within both the general and electric funds to obtain a total sample of 10 journal entries, which totaled \$367,680, to determine if they were supported and appropriate.
- We obtained the payroll data electronically from the payroll vendor's software and reviewed the Clerk-Treasurer's and Second Deputy's pay rates for all 30 pay periods during our audit period, which totaled a gross amount of \$48,770, to determine if they were being paid at the Board-approved rates and were not receiving benefits that were not Board-approved. We expanded our testing to review the payroll journal in February 2012 to summarize all the employees who received health savings accounts and how much the Village deposited into these accounts.
- We reviewed the medical insurance, Social Security, Medicare, and deferred compensation deductions from the Clerk-Treasurer's and Second Deputy's gross pay for one pay period during each fiscal year of our audit period to determine if the proper amounts were deducted. We expanded our sample for the medical insurance deductions for these same two pay periods for all employees to determine if all employees were having the Board-approved amounts deducted from their gross pay.
- We traced total deductions of \$9,520 taken from employees' gross pay for the same two pay periods to the bills, canceled check images, or withdrawals made from the bank statements to determine if the proper amounts were paid to the vendors.
- We verified the totals for a payroll journal from each fiscal year and traced these totals to the payroll vendor's bank withdrawals made from a Village bank account to determine if the vendor was withdrawing the proper amounts.

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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