

Village of Scottsville

Financial Management

AUGUST 2018



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

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Report Highlights

Village of Scottsville

Audit Objective

Determine whether the Board adopted and enforced policies to effectively manage Village operations.

Key Findings

- The Board did not:
 - Adopt sufficient financial and information technology (IT) policies.
 - Enforce aspects of the adopted online banking, procurement and cash receipts policies.

Key Recommendations

- Adopt additional financial and IT policies, review and revise policies to fit current operations and needs and ensure adopted policies are enforced.
- Conduct a thorough and deliberate audit of claims before authorizing payment to ensure that they are accurate, properly supported, for valid Village expenses and in compliance with required statutes and policies.

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

Background

The Village of Scottsville is located in the Town of Wheatland in Monroe County. The Village provides services to residents including street maintenance, snow removal, fire protection and general governmental support.

The Board is composed of five Trustees and is responsible for managing Village operations. The Mayor is a member of the Board and serves as the chief executive officer. The Mayor appoints all non-elective officers, subject to Board approval, including the Clerk and Treasurer. In October 2017, the Board separated the Clerk-Treasurer position into separate positions. The Treasurer serves as chief fiscal officer and is responsible for Village funds, preparing checks and providing information to the third party payroll processor. The Clerk serves as the tax collector and is responsible for receiving and depositing cash receipts. The Village uses an outside CPA firm to assist with recordkeeping.

Quick Facts

2017-18 Appropriations	\$1.56 Million
Population	2,000

Audit Period

June 1, 2016 – February 5, 2018

Financial Management

The Board is responsible for overseeing the Village's financial affairs and safeguarding its resources. Written policies and procedures are key components of an internal control environment, as they formally establish and communicate to staff the manner in which to conduct day-to-day operations. Effective policies and procedures help to ensure that financial duties are conducted, overseen and segregated so that no one individual controls most or all aspects of a financial transaction without mitigating controls. In this way, written policies and procedures provide reasonable assurance that Village assets are adequately safeguarded, and document management's priorities, values and commitment to internal controls.

What Policies Should the Board Adopt?

New York State General Municipal Law (GML) requires the Board to adopt written policies relating to investments, procurements not subject to competitive bidding and a code of ethics. It is also important for the Board to develop written policies for finance related areas and periodically review and update policies as needed.

IT security policies describe the tools and procedures to protect data and information systems, define appropriate user behavior and explain the consequences of policy violations. New York State Technology Law¹ requires the Board to adopt a breach notification policy. Finally, the Board must periodically review and update its policies and procedures to ensure they continue to meet the Village's needs and the requirements of law.

The Board's Policies Were Not Adequate

The Board did not adopt written policies and procedures for critical financial operations including budgeting, reserves, payroll processing, IT, and claims auditing. Moreover, the Board has not reviewed or updated its online banking, general fund balance, and cash receipts policies recently. The Board also did not update the procurement policy for new legal competitive bidding thresholds that took effect in 2010. The failure to develop and periodically review and revise formal policies and procedures weakened the Village's internal controls.

The following exceptions could have been prevented if proper policies and procedures were in place and monitored for compliance:

- The lack of budgeting and reserve policies may have resulted in an excessive sewer fund balance of \$176,000 (87 percent of ensuing year's appropriations). The general fund balance was \$142,240 (11 percent of ensuing year's appropriations). Although relatively low, the amount conformed to the Village's fund balance policy.

¹ Section 208

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- The lack of a payroll policy contributed to inappropriate duties being transferred from the Treasurer to the third party provider. These duties included accessing the Village's bank account and withdrawing funds to cover payroll, payroll taxes and fees for its services. The Village also has not entered into a written agreement with the payroll processor to ensure these issues are addressed.
 - The adopted IT policies did not address Village-wide acceptable use, data backups, sanitation and disposal of hardware and electronic media, user accounts, access rights, passwords, remote access, personal private and sensitive information, mobile devices, connecting personally owned devices to Village computers, inventory and breach notification. The procedures also did not include a disaster recovery plan, cyber security training or maintaining an IT hardware inventory. Finally, there is no written agreement with the Village's IT service provider.
 - The lack of an adequate online banking policy contributed to the Village not having required agreements with their financial institutions. Because the policy does not address non-wire transfers, the Treasurer is able to make transfers between Village accounts without the review or authorization of another Village official. In addition, the bank does not send notifications to Village officials for these transfers or automated clearing house transactions, there is no secondary authorization required, and Village officials do not regularly monitor bank activity. Finally, there is no designated computer to be used solely for online banking.
 - The adopted procurement policy did not require the good business practice of seeking competition from seven professional service providers who were paid \$239,444.

As a result of lax monitoring and enforcement of policies, we also found other weaknesses including the claims audit process where required documentation such as credit card receipts and quotes were not attached to claims, electronic receipts were not issued for all in person cash receipt transactions and grant technical support services were paid prior to the services being provided. In addition, receipts were not posted daily to the accounting software and the Board did not always authorize salaries and pay rates and ensure the approvals were documented in the minutes.

The Village does not have effective policies and procedures outlining expectations for managing Village resources. As a result, there is an increased risk that sewer charges and taxes may not be appropriate to fund current or future needs. In addition, and there is an increased risk of loss and abuse.

What Do We Recommend?

The Board should:

1. Adopt additional financial and IT policies, review and revise policies to fit current operations and needs and ensure adopted policies are enforced.
2. Ensure that Treasurer duties are not performed by a third party provider including accessing the Village's bank account and withdrawing funds for payroll, payroll taxes and fees for services.
3. Ensure that officials and employees receive adequate cyber security training and training on the Village's policies.
4. Ensure that it has sufficient written agreements with the payroll processor, IT service provider and banks used for online banking.
5. Ensure secondary authorizations and notifications and other security measures available from the Village's banks are utilized.
6. Conduct a thorough and deliberate audit of claims before authorizing payment to ensure they are accurate, properly supported, for valid Village expenses and in compliance with required statutes and policies.
7. Authorize salaries and pay rates and ensure the approvals are documented in the Board minutes.

Village Officials should:

8. Maintain a comprehensive IT hardware inventory.
9. Designate a computer to be used solely for online banking.
10. Ensure receipts are posted daily to the accounting software.

Appendix A: Response From Village Officials

Mayor

Eileen Hansen

Deputy Mayor

Kathie Carl



Incorporated 1914

Trustees

Christie Offen

Todd Shero

Leslie Wagar

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June 18, 2018

Edward V. Grant Jr.
Chief Examiner, OSC/Rochester Regional Office
The Powers Building
16 West Main Street, Suite 522
Rochester, NY 14614-1608

Dear Mr. Grant,

We have received the preliminary draft findings of the examination of the Village of Scottsville, and have had our exit discussion. When I was elected mayor in March 2018 I had concerns about our fiscal health. My meeting with the examiners was very informative and gave me more insight as to what needed to be worked on. Therefore, I agree with the report. We will begin work on a CAP to address these concerns.

Sincerely,

Eileen Hansen
Mayor
Village of Scottsville

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials and employees to gain an understanding of the controls, processes and practices in place and determine whether policies were enforced.
- We reviewed policies, Board minutes, budgets, fund balance estimates, department vehicle and equipment replacement schedules, grant documentation and cell phone bills.
- We reviewed fund balances, including reserves, and calculated the Village's unrestricted fund balances as a percent of the ensuing year's appropriations and compared them to the fund balance levels required by Board policy.
- For the randomly selected month of October 2016 and judgmentally selected more recent month of May 2017, we:
 - Reviewed online banking transactions to determine whether transfers were appropriate and wire transfers were authorized.
 - Reviewed all 126 non-credit card disbursements totaling \$116,405 and 23 credit card disbursements totaling \$1,603 to determine whether they had adequate supporting documentation, were appropriate Village expenditures and complied with Village policy. We further reviewed 20 credit card disbursements totaling \$1,973 for October and November 2017 to determine whether documentation for credit card purchases improved.
 - Reviewed all 74 electronic receipts totaling \$166,584 to determine whether receipts were deposited and the cash receipts policy was followed.
 - Tested payroll to determine whether hours paid were supported by timesheets, pay rates were authorized by the Board and hours worked were paid as dictated by the personnel policy.
- We reviewed the vendor history report to identify the population of professional service providers paid from June 1, 2016 through January 9, 2018. For all professional service providers with expenditures at or above \$8,000, which aligned with the Village's request for proposal threshold for other procurements, we determined whether competition was sought. There were 10 professional services providers who were paid more than \$8,000 in at least one fiscal year.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

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

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

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

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

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

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

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

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

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

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

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

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

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

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

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

Contact

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Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

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

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

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