

Village of Owego

Board Oversight and Financial Operations

SEPTEMBER 2018



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

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Report Highlights

Village of Owego

Audit Objective

Determine whether Village officials implemented adequate internal controls to safeguard money in the custody of the Clerk-Treasurer's office.

Key Findings

- The Board was unable to sufficiently oversee the Clerk-Treasurer's duties.
- The Clerk-Treasurer failed to provide the Board with accurate budget-to-actual reports and complete financial reports each month. Further, the value of these reports was greatly diminished because accounting records were unreliable and bank reconciliations were inaccurate and not prepared for all accounts.
- Because of ineffective recordkeeping, the certified public accounting firm (firm) was unable to complete its audits for the last two years. The Board hired another certified public accountant (CPA) who was paid \$30,000 to correct the records.
- The Clerk-Treasurer did not adequately segregate the deputies' duties or provide sufficient oversight of their work. As a result, many of their duties were performed without Board approval or the Clerk-Treasurer's knowledge or oversight.

Key Recommendations

- Continue efforts to sufficiently oversee the Clerk-Treasurer's duties and work with CPAs to improve financial records and reports.
- Ensure that financial records and reports are timely and accurate.
- Segregate the deputies' duties or implement compensating controls.

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

Background

The Village of Owego (Village) is located in the Town of Owego in Tioga County. The Village is governed by an elected Board of Trustees (Board) composed of six Trustees and the Mayor.

The elected Clerk-Treasurer, as the chief financial officer, is responsible for collecting real property taxes and sewer fees, preparing and distributing payroll and recording and reporting financial information. Three deputies, including a bookkeeper, payroll clerk and sewer clerk, assist with these duties.

Quick Facts

2017-18 General Fund Appropriations	\$2.9 million
2017-18 General Fund Tax Levy	\$2.1 million
Population	3,396

Audit Period

August 1, 2015 – July 31, 2017. We extended our audit period back to August 1, 2012 to review the annual financial reports (AUDs) filed with the Office of the State Comptroller (OSC).

Board Oversight and Financial Operations

What Internal Controls Should Be in Place?

The board is responsible for overseeing financial operations and safeguarding village resources. To do this, the board must ensure that the clerk-treasurer prepares and provides accurate financial records and reports.¹ The board also should ensure that financial duties are segregated so that no one individual controls all phases of a transaction. Additionally, Village Law² requires the board to annually audit or cause to be audited the treasurer's records.

The clerk-treasurer's responsibilities include maintaining custody of financial assets; implementing adequate internal controls over deputies' work; ensuring that transactions are properly accounted for; and maintaining accurate, complete and timely records of such activity. To fulfill these responsibilities, the clerk-treasurer should implement adequate internal controls to safeguard money and prevent, detect and correct any errors or discrepancies by properly segregating duties over cash receipts and disbursements and providing sufficient employee oversight.

One individual should not have the ability to authorize, execute and record a transaction. When it is neither practical nor cost-effective to segregate duties, the clerk-treasurer and board must ensure compensating controls are in place. Compensating controls include oversight procedures designed to reduce the risk of errors or irregularities not being detected.

Additionally, the clerk-treasurer should ensure that all money received is deposited intact in the same form as received (i.e., cash or check). The clerk-treasurer should ensure that operational activities agree with board directives and interfund borrowings are approved by the board. Further, all budget amendments (increases or decreases in estimated revenues and/or appropriations and transfers between individual budget line items) should be approved by the board and properly recorded to prevent overspending.

The Board Was Unable to Provide Sufficient Oversight

The Board was unable to sufficiently oversee the Clerk-Treasurer's duties. Although it reviewed claims and received a monthly report from the Clerk-Treasurer, these reports were inaccurate. The Board requested that the Clerk-Treasurer provide reports with more accurate and complete information. However, the Clerk-Treasurer failed to do so.

¹ Village Law, Section 4-408 requires the Clerk-Treasurer to account for all revenues and expenditures as prescribed by the Office of the State Comptroller (OSC). Refer to OSC publication *Accounting and Reporting Manual* available at www.osc.state.ny.us/localgov/pubs/arm.pdf

² Ibid.

The Board hired a firm to audit the annual financial statements. However, the firm was unable to complete the audits for the last two years (2015-16 and 2016-17) because progress was impeded by the Clerk-Treasurer's incomplete and inaccurate financial records. As a result, the Board hired another CPA, who was paid more than \$30,000, to correct errors, assess financial condition and provide training for the deputies.

From July 31, 2015 through July 31, 2016, the general fund balance decreased by almost 60 percent. As a result, Village officials were unable to meet general fund obligations incurred near the July 31, 2016 year-end. Officials met these obligations by obtaining unapproved borrowings from the sewer fund totaling more than \$272,000. Although all but \$15,000 was repaid in 2016-17, the Clerk-Treasurer did not bring the cash flow issues to the Board's attention, and the interfund borrowings were made without its approval and direction. Furthermore, because the Clerk-Treasurer's records and reports were inaccurate and unreliable, the Board did not appropriate any amount of fund balance in the 2017-18 budget to finance general fund operations because it was unaware how much fund balance was available for that purpose.

In the absence of complete, accurate and timely financial information, officials, taxpayers and oversight agencies are unaware of the Village's financial condition. As a result, the Board is unable to adopt effective budgets and Village officials could incorrectly charge taxpayers' real property taxes, which could either be more than necessary or insufficient to fund operations. Further, the Board is unable to make prudent financial decisions and ensure a continued level of service for taxpayers.

The Clerk-Treasurer Did Not Implement Adequate Internal Controls

The Clerk-Treasurer did not establish adequate internal controls over the deputies' duties. More specifically, the Clerk-Treasurer did not adequately segregate the deputies' duties or provide sufficient oversight of their work.³ For example, the deputies performed the following duties without the Board's approval and Clerk-Treasurer's knowledge or oversight:

- All the deputies were able to make journal entries and collected real property taxes.
- The bookkeeper collected and recorded real property tax receipts, altered the account codes expenditures are charged to (within and across departments) and initiated budget amendments. While the altered codes did not indicate any fraudulent activity, these changes created confusion

³ We reported similar findings in our prior audit report *Village of Owego – Clerk-Treasurer's Office and Parking Tickets (2015M-30)* released in May 2015 www.osc.state.ny.us/localgov/audits/villages/2015/owego.pdf.

as to how much money was available in specific budget lines and created discrepancies when reviewing budget vs. actual reports.

In addition, the Clerk-Treasurer did not review deposit compositions, bank statements or reconciliations and did not receive or review canceled check images for general fund or sewer fund bank accounts during the audit period.

The Clerk-Treasurer told us that he prefers to delegate these responsibilities to the deputies and believed that existing controls were adequate to prevent errors and safeguard operations. However, the Clerk-Treasurer was unaware that the bookkeeper frequently altered the financial records.

This resulted in significant errors and discrepancies in the records, which the Clerk-Treasurer was also unaware of. These discrepancies can affect how residents are billed for real property taxes or sewer rents. Furthermore, the lack of oversight and the concentration of key duties with the bookkeeper could lead to unauthorized disbursements or receipts not deposited intact in a timely manner. Our audit testing identified the following deficiencies:⁴

- The bookkeeper made unapproved budget amendments affecting 72 line items totaling nearly \$1.5 million, including increases and decreases to the budget and transfers between line items, but did not record 12 of 26 Board-approved budget amendments.
- Even with the budget amendments recorded during our audit period, the general fund had 112 line items overspent by a total of more than \$1.4 million and the sewer fund had 13 line items overspent by a total of almost \$241,000.
- General fund bank reconciliations prepared by the bookkeeper were inaccurate due to differences in outstanding checks and electronic transfers and were not completed for two months of our audit period. For instance, one check for \$836 cleared the bank in February 2017 but was included as an outstanding check on the reconciliations prepared for March 2017 and July 2017.
- Payroll bank reconciliations were not prepared during our audit period.
- Payrolls, prepared by the payroll clerk for 80 employees, lacked documentation or had errors for 14 of 59 employees tested, involving pay rates, work hours, overtime hours, leave, severance pay and one retroactive pay raise. This resulted in \$3,350 in unsupported payments or overpayments (to employees other than the payroll clerk and Clerk-Treasurer) and \$47 in underpayments.

⁴ Refer to Appendix B for information on our sampling methodology.

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- In one instance, in 2016-17, the sewer clerk relieved \$470 in sewer fees to the wrong taxpayer's account.

As a result of ineffective recordkeeping, the financial reports presented to the Board were inaccurate, despite being presented each month and in a proper format. The disbursements presented to the Board in budget-to-actual reports did not agree with supporting claims or versions of these same reports printed at a later date. For example, in July 2017, total sewer fund expenditures from claims paid totaled more than \$93,000.

However, the report presented to the Board showed sewer fund expenditures of approximately \$44,000, while the computerized accounting records showed almost \$162,000. While we found that the disbursements we reviewed were for proper purposes, there is an increased risk that funds could be misappropriated when accurate financial records and reports are not prepared.

In addition, the Clerk-Treasurer failed to file the AUDs with OSC within 60 days following the close of the fiscal year as required. For 2011-12 through 2014-15, AUDs were late from between 111 to 890 days. As of July 31, 2017, the 2015-16 AUD has not been filed. We reviewed the 2013-14 and 2014-15 AUD and found that they did not agree with the CPA audit reports.

The Clerk-Treasurer's failure to adequately segregate the deputies' duties or implement compensating controls led to a lack of complete, timely and accurate information reported to the Board. This contributed directly to the Board's inability to adopt effective budgets and make prudent financial decisions.

What Do We Recommend?

The Board should:

1. Continue its efforts to sufficiently oversee the Clerk-Treasurer's duties.
2. Approve all budget amendments before appropriations are overexpended.
3. Ensure that financial records and reports are accurately and timely maintained.
4. Continue to work with CPAs to improve the financial records and reports.
5. Determine if the unsupported payroll payments were appropriate, pursue collection of overpaid payroll amounts and ensure the Clerk-Treasurer makes accurate payroll payments.

The Clerk-Treasurer should:

6. Properly segregate the deputies' duties or implement compensating controls to safeguard operations, such as providing additional oversight.

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7. Ensure that budget-to-actual reports are timely and accurate.
 8. Notify the Board when budget amendments are needed and request its approval.
 9. Implement procedures to ensure the accuracy of payrolls.
 10. Ensure the AUD is filed in a timely manner.

The Board and the Clerk-Treasurer should:

11. Review the training resources listed in Appendix C of this report and our publication entitled *Fiscal Oversight Responsibilities of the Governing Board*, which can be accessed on our website at: www.osc.state.ny.us/localgov/pubs/lgmg/fiscal_oversight.pdf.

Appendix A: Response From Village Officials



Village of Owego

Clerk-Treasurer
Mayor
178 Main Street
Owego, NY 13827

Code Enforcement
Dept. of Public Works
20 Elm Street
Owego, NY 13827

WWTP
Southside Drive
Owego, NY 13827

Owego Police Dept.
90 Temple Street
Owego, NY 13827

Office of the Mayor
Clerk-Treasurer
Code Enforcement
Village Fax

607-687-1710
607-687-3555
607-687-1101
607-687-1787

WWTP
Police Dept.
Public Works
Village Garage

607-687-2282
607-687-2233
607-687-1101
607-687-1221

September 12, 2018

██████████ Principal Examiner
Office of the State Comptroller
State Office Building
Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear ██████████:

Thank you for the Village of Owego Board of Trustees Oversight and Financial Operation Report of Examination. Please accept this as the Village of Owego response and action plan.

The Board of Trustees will continue to oversee the elected Clerk-Treasurer duties. All further budget amendments will be reviewed by the board to assure that no appropriations are over expended.

Financial records and reports are to be turned in on time and accurate, this has been difficult as we have not had a full-time bookkeeper since November 2011. The Village will be looking into returning to a full time bookkeeper.

The Village will continue to work with CPA firms to provide accurate reports for all financial accounting.

Village Clerk-Treasurer to implement plan for the segregation of duties of office to safeguard operations. This is a small office where jobs often overlap. Village Clerk-Treasurer to sign off on all reports (sewer, payroll, etc.).

Reviewing past payrolls and will pursue collection/correction of any over/under payments, if found. Will ensure that all payroll directives for changes are properly filed.

The Village Clerk-Treasurer will provide/ensure that budget to actuals (monthly Treasurer's Report) are timely and accurate.

The Village Board will be notified in writing of any budget amendments, and only on approval, will make those amendments to the budget.

The AUD will be completed in an accurate and timely manner. Currently CPA firm is working on 2016-2017. 2015-2016 has been submitted and accepted. An extension is being requested for 2017-2018.

Also looking into upgrading all software for payroll, budgeting, taxes, utility billing and accounts payable. This will allow department heads and Board of Trustees easier access to their accounts.

All the resources in Appendix C will be downloaded and used as tools by the Clerk-Treasurers office to ensure the Village operate in a more fiscally responsible manner.

Sincerely,

Michael Baratta III
Mayor

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, we performed the following audit procedures:

- We interviewed Village officials and reviewed Board meeting minutes to gain an understanding of the Village's internal controls and to determine whether these were implemented adequately.
- For four judgmentally selected months (December 2015, February 2016, March 2017 and July 2017) chosen with no expectation that more or fewer errors would occur during the selected month than any other month of our audit period:
 - We compared expenditures supported by claims with expenditures on budget-to-actual reports presented to the Board and on those reports retained in the Village's computerized accounting system to identify any discrepancies.
 - We traced all canceled check images from bank statements to Board-approved abstracts and claims vouchers to determine whether they were Board-approved. We also reviewed the vouchers for supporting documentation.
- We tabulated all budget amendments that the Board approved as shown in the Board minutes for our audit period and compared them with all those included on budget-to-actual reports. We determined whether the Board-approved amendments were recorded. We also determined whether any amendments were not approved and whether overspending appropriations was prevented.
- We reviewed the unpaid sewer bills relieved on 2017-18 tax bills to assess whether taxpayers were charged the proper amount, where applicable.
- We traced four judgmentally selected months (August 2015, October 2015, March 2016, and July 2016) of sewer revenues from cash receipts records to bank statement deposits to determine whether deposits were timely and intact. We chose those months with no expectation that more or fewer errors would occur during the selected month than any other month of our audit period.
- We traced all August 2015 real property tax receipts from cash receipts records to bank statement deposits to determine whether deposits were made intact in a timely manner.
- We reviewed the completeness and accuracy of bank reconciliations for eight judgmentally selected months (August 2015, October 2015, December 2015, February 2016, March 2016, July 2016, March 2017 and July 2017) for general fund and sewer fund accounts and reviewed payroll bank

account reconciliations for the entire audit period. We chose the judgmentally selected months with no expectation that more or fewer errors would occur during the selected month than any other month of our audit period.

- We reviewed four months of payroll records for 59 of 80 employees paid during the audit period to determine whether employees' net pay, work hours, overtime and leave were supported. We also reviewed supporting documentation for severance payments and retroactive raises. We noted any instances where supporting documentation was either missing or would have led to a difference in pay. We judgmentally selected our sample by choosing sets of employee records from each payroll period to include one employee per department per month, with one full-time and one part-time employee, when applicable. We selected these months by excluding any months we previously selected for our claims and deposits testing.
- We obtained AUD filing dates for our audit period to determine whether the AUD was filed timely and calculated how late it was if filed after the deadline.
- We compared revenues and expenditures from 2014-15 and 2015-16 audited financial statements to the AUDs submitted to OSC to assess the report's accuracy.
- We reviewed all interfund activity (electronic transfers, withdrawals and deposits) on bank statements to assess the extent of interfund borrowing between the sewer and general funds and the extent to which that borrowing was repaid.
- We estimated the general fund balance available as of July 31, 2017.

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 relevant population size 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-Treasurer'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

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

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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

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

BINGHAMTON REGIONAL OFFICE – Ann C. Singer, Chief Examiner

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel (607) 721-8306 • Fax (607) 721-8313 • Email: Muni-Binghamton@osc.ny.gov

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