



Village of Cape Vincent

Payroll and Claims Auditing

Report of Examination

Period Covered:

June 1, 2013 — December 31, 2014

2015M-131



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2015

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 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 Cape Vincent, entitled Payroll and Claims Auditing. 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 New York State 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

EXECUTIVE SUMMARY

The Village of Cape Vincent (Village) is located in Jefferson County and has a population of approximately 700 residents. The Village is governed by an elected Board of Trustees (Board), consisting of four Trustees and an elected Mayor. The Board is responsible for the general management and control of the Village's finances. The Mayor serves as chief executive officer and an appointed Clerk-Treasurer serves as chief fiscal officer.

The Village provides various services to its residents including street maintenance and improvements, water, sewer and general government support. The Village's budgeted appropriations for fiscal year 2014-15 were approximately \$1.8 million for the general, water and sewer funds, funded primarily by real property taxes, sales tax and user charges.

Scope and Objectives

The objectives of our audit were to review the Village's internal controls over payroll and the claims audit process for the period June 1, 2013 through December 31, 2014. We extended our scope back to calculate the former Clerk-Treasurer's salary for the 2012-13 fiscal year. Our audit addressed the following related questions:

- Did the Board establish adequate internal controls over payroll to ensure that salaries and benefits were paid in accordance with Board authorization and that adequate leave records were maintained?
- Did the Board properly audit claims to ensure that they were adequately supported and for proper Village purposes?

Audit Results

The Board needs to improve controls over payroll to ensure that salaries and benefits are paid in accordance with Board authorization and that adequate leave records are maintained. Payroll duties are not adequately segregated and there is no periodic management review of transactions, certification of payrolls or review of leave records. The Board also did not clearly document its authorization of compensation for all Village employees. Village officials could not provide documentation showing Board authorization of \$9,500 of the Clerk-Treasurer's \$32,000 salary paid for the 2013-14 fiscal year and \$5,809 of her \$19,569 salary paid for June through December 2014. The former Clerk-Treasurer¹ was overpaid \$10,638 for a separation payment received in June 2013. In addition, seven employees

¹ Retired on May 31, 2013

received payments that were not authorized by the Board totaling \$5,091. The Clerk-Treasurer did not maintain adequate leave records for herself and five employees received less sick time than the Board authorized for fiscal year 2013-14. The Department of Public Works Superintendent also prepared and approved his own leave-time slips with no oversight. As a result of these internal control weaknesses, there is an increased risk that employees could receive wages, salaries and leave benefits to which they are not entitled.

The Board has not properly audited claims to ensure the claims were adequately supported or were for proper Village purposes. Instead, the Board reviewed and approved abstracts for the general, water and sewer funds and one Board member reviewed any capital fund claims related to construction costs. We reviewed 171 claims totaling approximately \$1.8 million and found that 28 of the claims² totaling \$1.5 million were not included on abstracts presented to the Board. The remaining 143 claims totaling \$299,254 were included on Board-approved abstracts, but the Mayor did not certify the abstracts. In addition, 40 claims totaling \$277,808 had one or more significant deficiencies. Although, the claims appeared to be for proper Village purposes, the Board did not conduct a thorough claims audit, and the Mayor did not sign abstracts ordering claims to be paid. This increases the risk that the Village could pay for expenditures that are unauthorized or unnecessary.

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 recommendations and indicated they have taken, or plan to take, corrective action.

² Twenty-three capital project claims totaling more than \$1.4 million and five health insurance claims totaling \$31,645

Introduction

Background

The Village of Cape Vincent (Village) is located in Jefferson County and has a population of approximately 700 residents. The Village is governed by an elected five-member Board of Trustees (Board), comprising a Mayor and four Trustees. The Board is responsible for the general management and oversight of the Village's financial affairs. The Mayor serves as chief executive officer and an appointed Clerk-Treasurer serves as chief fiscal officer.

The Village provides various services to its residents, including street maintenance and improvements, water, sewer and general government support. The Village's budgeted appropriations for fiscal year 2014-15 were approximately \$1.8 million for the general, water and sewer funds, funded primarily from real property taxes, sales tax and user charges.

Objectives

The objectives of our audit were to review internal controls over payroll and review the claims audit process at the Village. Our audit addressed the following related questions:

- Did the Board establish adequate internal controls over payroll to ensure that salaries and benefits were paid in accordance with Board authorization and that adequate leave records were maintained?
- Did the Board properly audit claims to ensure that they were adequately supported and for proper Village purposes?

Scope and Methodology

We examined the Village's payroll records and the claims audit process for the period June 1, 2013 through December 31, 2014. We extended our scope back to calculate the former Clerk-Treasurer's salary for the 2012-13 fiscal year.

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 have taken, or plan to take, 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 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.

Payroll

The Board is responsible for establishing internal controls over payroll to ensure that salaries and benefits are paid in accordance with Board authorization and that adequate leave records are maintained. Good controls include the segregation of duties, when possible, so that no individual controls all phases of a payroll transaction. The Board must authorize all compensation and leave benefits provided to Village employees and officials and should ensure that payrolls are certified by an employee or official that is independent of the payroll process. A periodic independent review of leave accrual records and balances should also be performed.

The Board needs to improve internal controls over payroll. Payroll duties are not adequately segregated and there is no periodic management review of transactions, certification of payrolls or review of leave records. The Board also did not clearly document its authorization of compensation for all Village employees. As a result, Village officials could not provide documentation showing the Board's authorization for \$15,309 of the Clerk-Treasurer's salary, and the former Clerk-Treasurer was overpaid \$10,638 for a separation payment. In addition, seven employees received payments that were not authorized by the Board, totaling \$5,091. The Clerk-Treasurer did not maintain adequate leave records for herself, and for fiscal year 2013-14, five employees received less sick leave than the Board authorized. The Department of Public Works (DPW) Superintendent (Superintendent) also prepared and approved his own leave-time slips with no oversight.

Payroll Processing

When possible, the Board should segregate payroll duties to ensure that no individual controls all phases of a payroll transaction. The Board is also responsible for documenting authorizations for all compensation for Village employees and officials. Written documentation of this authorization – by resolution, a policy document approved by the Board, a negotiated employment contract or a supplemental salary schedule in the Village's annual budget³ – is an important internal control over payroll because it communicates the Board's intent. The Board should ensure that payrolls are certified by an employee or official independent of the payroll process. This certification process should involve comparing payroll source documents with payroll registers to verify that payments are based on actual hours or days worked and Board-authorized pay rates. Independent payroll

³ New York State Village Law (Village Law) requires villages to attach a salary schedule to their annual operating budgets.

certification becomes an even more important control when payroll duties are not adequately segregated.

The Board has not ensured adequate segregation of payroll duties or provided sufficient oversight of the payroll process. The Clerk-Treasurer enters new employees in the payroll system, processes payrolls, prepares and signs checks and is responsible for performing bank reconciliations, without oversight. In addition, Village officials told us that there is no payroll certification or review by any other Village employee. The Clerk-Treasurer told us that the Board documents approval of an employee's initial salary or pay rate in Board minutes at the time the employee is hired and approves a percentage increase by category of employee annually in Board minutes. However, Village officials were unable to provide us with documentation showing the Board-authorized salaries and pay rates for employees and certain officials.

We reviewed all payroll payments for November 2013 and 2014, totaling \$51,670, to determine whether hours entered into the payroll system agreed with time records, whether employees were paid Board-authorized salaries and whether their gross pay was calculated correctly. We found that hours paid were appropriately supported by time records. However, there was no annual Board-authorized salary or pay rate for Village employees and officials other than Board members.⁴ We applied the Board-authorized percentage increases from the Board minutes to the employees' salaries and pay rates from fiscal years 2012-13 and 2013-14 to determine if the employees received the Board authorized salary increases for fiscal years 2013-14 and 2014-15. We found the following discrepancies:

- According to the Board minutes,⁵ the Clerk-Treasurer's salary is "to be the full budgeted portion for the Clerk-Treasurer position." The 2013-14 Board adopted budget included \$11,000 for the Clerk position and \$11,500 for the Treasurer position. However, the Clerk-Treasurer was paid \$32,000 for fiscal year 2013-14, \$9,500 more than the Board-authorized budgeted amounts. For fiscal year 2014-15, the Board-authorized a 6 percent increase. Therefore, the Clerk-Treasurer was authorized to receive \$13,760⁶ through December 31, 2014 based on the percentage increase of the prior year's budgeted

⁴ Board members' salaries are published annually in the newspaper in the Notice of Hearing.

⁵ Board minutes dated June 11, 2013

⁶ 2013-14 Board-authorized budgeted salary of \$22,500 multiplied by a 6 percent increase for 2014-15 equates to a 2014-15 authorized salary of \$23,850. The authorized salary is divided into 26 equal paychecks. The Clerk-Treasurer received 15 of 26 paychecks through December 31, 2014 (\$23,850 divided by 26 multiplied by 15 equals \$13,760.)

amounts. However, she was paid \$19,569,⁷ \$5,809 more than the documented Board-authorized amount. According to the Clerk-Treasurer, her salary was budgeted between the Clerk, Treasurer and water administration, sewage treatment and disposal positions. However, officials could not provide us with any Board-approved documents to support additional salary allocations for the Clerk-Treasurer's position. As a result, the Clerk-Treasurer was paid \$15,309 more than the Board's documented authorization.

- Five DPW employees and two police officers received payments that were not formally authorized by the Board. This included \$50 stipends for DPW employees working weekends at the Village's water plant and police officers receiving step increases of 25 cents per hour. Village officials told us that they always paid DPW employees \$50 stipends for working weekends and provided 25 cent step increases to police officers at the end of their first, second, third and fourth years of employment. However, they were unable to provide us with documentation of the Board authorizing either the stipend or step increases. The five DPW employees and two police officers received unauthorized payments totaling \$5,091⁸ in our audit period.
- Although the Board authorized the hiring of a code enforcement officer in January 2013 and a police officer in September 2013, the Board did not set a pay rate for either employee. The police officer was paid \$4,410 and the code enforcement officer was paid \$3,763 in our audit period. The Mayor stated that there is a salary schedule for police officers and the officer's pay rate corresponded to the salary schedule. However, Village officials could not find any Board authorization for the schedule.

Because the Board has not implemented adequate controls over payroll processing, the Board cannot ensure that employees are being paid at authorized amounts or that Village employees and officials are only receiving appropriate payroll payments.

⁷ 2013-14 paid salary of \$32,000 multiplied by a 6 percent increase for 2014-15 equates to \$33,920. The annual salary is divided into 26 equal paychecks, of which the Clerk-Treasurer received 15 through December 31, 2014 (\$33,920 divided by 26 multiplied by 15 equals \$19,569.)

⁸ \$5,091 consists of \$4,050 to the five DPW employees and \$1,041 to the two police officers for our audit period.

Separation Payments

The Board is responsible for implementing controls over separation payments to ensure that eligible employees receive only the amount intended by the Board. The Board must authorize separation payments by either a collective bargaining agreement, contract, resolution or policy document. Village officials must sufficiently review separation payments and ensure that they are properly calculated and adequately supported.

The Board-approved personnel policy manual (Manual) establishes the terms of employment including payments for unused leave time upon separation from service. Full-time employees who retire from Village service after 15 years of employment are entitled to receive a separation payment for accrued sick leave up to a maximum of 180 days at the employee's pay rate at the time of retirement.

We reviewed separation payments made to two former employees totaling \$72,537 to determine whether their separation payments were correctly calculated, supported and reviewed.

The former Clerk-Treasurer retired on May 31, 2013 and received a separation payment totaling \$33,067, which included \$32,184 for unused sick time and an additional \$883 for seven working days. The Manual defines the former Clerk-Treasurer as a full-time employee and records indicate that the former Clerk-Treasurer had more than the required 15 years of Village service and had 2,043.5 hours of accumulated sick time. There was no documentation that the Board reviewed the separation payment made to the former Clerk-Treasurer.

We reviewed the Clerk-Treasurer's calculation of the former Clerk-Treasurer's separation payment and found various errors. For example, the Clerk-Treasurer converted the maximum 180 allowable sick days into hours using an 8-hour work day to determine the total number of hours for the sick leave payout and she used a 5.5-hour work day to determine an hourly rate of pay. This resulted in a larger rate of pay and more allowable hours for payout. The inconsistent use of hours worked per day in the Clerk-Treasurer's calculation resulted in the former Clerk-Treasurer receiving a sick leave payout equivalent to a full year's salary, instead of only 180 days.

Village officials were unable to provide us with the former Clerk-Treasurer's working hours, so we recalculated the separation payment using the maximum allowed 180 days at a daily rate⁹ and also recalculated her salary payment for working the seven days. We

⁹ We found no Board authorization for the former Clerk-Treasurer's 2011-12 salary. We applied a 2 percent Board-authorized salary increase to her 2011-12 paid salary to calculate her 2012-13 salary and sick leave payout.

determined the payout should have been \$22,429 and that the Village overpaid the former Clerk-Treasurer by \$10,638.

The Mayor told us that the Board was aware that the Village would be making a separation payment to the former Clerk-Treasurer. However, both the Mayor and the Clerk-Treasurer told us that the Board did not review the separation payment calculation. Officials should review separation payment calculations to ensure they are accurate and authorized.

The separation payment made to the former Assistant Water/Wastewater Treatment Operator consisted of two payments¹⁰ totaling \$39,470¹¹ that were paid in accordance with the Manual, were supported by leave records and reviewed by the Board.

Leave Records

The Board is responsible for implementing controls over leave benefits it intends to provide to Village employees. The Board can do this by defining leave benefits to which Village employees are entitled. A good system of accounting for employee leave time requires Village officials to periodically verify the accuracy of employee leave records ensuring that employees earn leave time in accordance with Board authorizations and that leave time used is accurately deducted from employee leave accruals.

The Board defined the amount and type of leave that Village employees are entitled to in the Manual. Full-time Village employees are entitled to earn personal, vacation and sick leave, and the Manual describes when and how much leave is earned by Village employees. Payment for unused vacation leave on an employee's anniversary date is also authorized.

The Clerk-Treasurer processes and maintains leave records for all Village employees. DPW employees submit leave requests to the Superintendent, who approves and forwards the requests to the Clerk-Treasurer for processing. In addition, the Clerk-Treasurer compares DPW employee timecards to the leave requests, ensuring all leave time is charged against accruals.

The Superintendent verbally requests time off from the Mayor or the Board. However, he prepares and approves his own leave request slips and submits them to the Clerk-Treasurer to record. There is no

¹⁰ Village officials paid the former employee half of his accrued sick time in July and paid the other half in September.

¹¹ The former Assistant Water/Wastewater Treatment Operator was employed by the Village for more than 15 years and was paid for 180 days of accrued sick time at his rate of pay at retirement. He worked five days per week, eight hours per day. 180 days multiplied by eight hours per day multiplied by \$27.41 per hour equals \$39,470.

verification process of the Superintendent's leave to ensure all leave request slips have been submitted or recorded. In August 2014, the Clerk-Treasurer made a vacation leave payout to the Superintendent totaling \$2,364 for 86 unused vacation hours, which agreed with his hourly rate multiplied by the unused vacation hours recorded. However, because there is no oversight or documentation to ensure the Superintendent submits all leave slips for verbal requests, Village officials have no assurance that the amount paid was accurate.

The Clerk-Treasurer requests time off from the Mayor through phone calls, emails or texts; however, neither she nor the Mayor maintain any documentation of the days or hours taken off or the approval. The Clerk-Treasurer told us that she makes a note of her time off, but she discards the note once she records the hours in the payroll system.

As a result of these weak controls, there is no assurance that all the leave time taken by the Superintendent or the Clerk-Treasurer is recorded. Further, no other Village official periodically reviews the accuracy of any leave balances.

Because of the lack of oversight of employee leave records, we reviewed leave accrual records for all full-time employees entitled to leave during our audit period to determine if the amounts of leave earned (sick, vacation and personal) were in accordance with the Manual. We also traced leave time from the employee time records to the approved leave requests and the Village's payroll system to determine if the leave time used was authorized and accurately recorded into the payroll system.¹²

We found the employees received the Board-authorized amounts of vacation and personal leave. However, five employees each received 16 fewer hours in sick leave than the Board authorized for the 2013-14 fiscal year. We also found that leave time used by the DPW employees was accurately recorded.

Recommendations

The Board should:

1. Segregate payroll duties to ensure that one person does not control the entire payroll process. If segregation of duties is not practical, the Board should ensure that compensating controls, such as increased management oversight, are implemented.
2. Ensure that an independent certification of payroll is performed and a review of leave records takes place periodically.

¹² See Appendix B, Audit Methodology and Standards, for our sample selection process.

3. Attach a salary schedule to its annual operating budgets and ensure all compensation for Village employees and officials is clearly documented and authorized.
4. Review salary payments made to the Clerk-Treasurer, Police and DPW employees and consider taking action to recover any unauthorized amounts.
5. Review the calculation for the separation payment made to the former Clerk-Treasurer and consider taking action to recover any overpaid amount.
6. Review and authorize all separation payouts prior to payment.
7. Ensure that all compensation and leave benefits are clearly authorized, approved and provided, pursuant to applicable Village policies or Board resolutions.
8. Implement a process to verify the leave time of the Clerk-Treasurer and Superintendent is documented, approved and recorded.

Claims Auditing

The Board¹³ is responsible for auditing and approving all Village claims prior to payment.¹⁴ The Board's claims audit should be a deliberate and thorough process to ensure each claim contains sufficient supporting documentation to verify compliance with Board-adopted policies and statutory requirements and that each claim is for a proper Village purpose. Because the Clerk and Treasurer positions are combined in the Village, the Mayor is required to sign an order directing the Clerk-Treasurer to pay the claims that the Board has audited and approved.

The Board did not properly audit claims to ensure they were adequately supported or were for proper Village purposes. The Clerk-Treasurer provides the Board with abstracts and related claims for audit for the general, water and sewer funds. The Board reviews and approves the abstracts without reviewing the actual claims and the Clerk-Treasurer documents the Board's approval of the abstract in the Board minutes.¹⁵ The Clerk-Treasurer does not present the Board with abstracts or claims for capital project funds. One Board member reviews and approves any capital project claims related to construction costs. Without a thorough and deliberate examination of the individual claims and the supporting documentation, the Board does not have enough information to determine whether the claims it approves are appropriate and legitimate and there is an increased risk that improper claims could be paid. Also, there is no authority for the Board to delegate the audit and approval of certain claims to one Board member. Furthermore, the Mayor does not certify the abstracts authorizing the Clerk-Treasurer to pay the claims.

Due to the lack of a proper audit, we reviewed 171 claims totaling approximately \$1.8 million¹⁶ to determine whether they contained adequate supporting documentation and were in accordance with Village policies, approved by department heads, for proper Village purposes and listed on approved abstracts. We verified that the payees

¹³ Village Law allows villages to establish an Office of the Auditor to audit and approve claims against the Village. However, the Board has not established an Office of the Auditor.

¹⁴ Claims include bills or invoices submitted by vendors requesting payment for goods or services furnished to the Village. Village Law allows the Board to authorize, by resolution, payment in advance of the claims audit for public utility services, postage, freight and express charges. Such claims must be presented for audit at the next regular Board meeting.

¹⁵ Board minutes contain abstract numbers, approved claim totals by fund and each Board member's approval. If a claim is not approved, that is included in the minutes along with a brief description of the Board's reasoning.

¹⁶ See Appendix B, Audit Methodology and Standards, for our sample selection process.

and amounts paid on canceled checks agreed with the claims. We found that 28 claims¹⁷ totaling \$1.5 million were not on abstracts presented to the Board. The remaining 143 claims totaling \$299,254 were included on Board approved abstracts, but the Mayor did not certify the abstracts ordering the Clerk-Treasurer to pay these claims. We also found 40¹⁸ claims totaling \$277,808 that did not include the signature of the officer whose action gave rise to each claim, to confirm the accuracy of the claim and verify the goods or services had been received, or were unsupported since portions of the claims did not contain original invoices and did not have sufficient descriptions of items purchased.

Examples of unsigned claims include claims for postage, water meters and a sewer jetter.¹⁹ Without documentation²⁰ indicating goods were received, there is an increased risk that the Village could pay for goods that were not actually received. Unsupported payments include a billing statement that showed “for June charges” but provided no detail of the charges. Upon request, officials provided us with reasonable explanations for the purchases but could not provide us with additional support for the claims.

Since the Board did not audit claims and the Mayor did not authorize the Clerk-Treasurer to pay claims by certifying the abstracts, there is an increased risk that payments were for goods and services that were not received or that may not be for proper Village purposes.

Recommendations

The Board should:

9. Ensure it conducts a thorough and deliberate audit of all Village claims or formally establish an Office of the Auditor to fulfill the claims audit function.
10. Ensure each claim contains appropriate approvals and sufficient supporting documentation.

¹⁷ Twenty-three capital project claims totaling more than \$1.4 million and five health insurance claims totaling \$31,645

¹⁸ One claim had more than one deficiency and some claims had partial deficiencies.

¹⁹ A powerful drain cleaning machine that uses a high-pressure water jet to clear obstructions in residential and commercial drain pipes as well as larger municipal sewer systems

²⁰ Village Law states that, with some exceptions, claims cannot be ordered to be paid unless approved by the officer or employee whose action gave rise or origin to the claim.

The Mayor should:

11. Certify abstracts of claims to the Clerk-Treasurer with a statement indicating that the claims listed have been audited and approved by the Board.

The Clerk-Treasurer should:

12. Only pay claims upon order of payment from the Mayor.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

VILLAGE OF CAPE VINCENT

P.O. Box 337

Cape Vincent, New York 13618

(315)654-2533

Voice and TDD Number is 711 or 1-800-662-1220

To: The Chief Examiner, Office of the State Comptroller

Re: Written Audit Response to draft audit report
Village of Cape Vincent
Payroll and Claims Auditing

Dear Chief Examiner Rebecca Wilcox,

Contained herein, please find the official response from the Village of Cape Vincent, Board of Trustees, to the audit by the Office of the State Comptroller.

Regarding the findings and recommendations of the OSC audit staff, the Board of Trustees of the Village of Cape Vincent hereby states that we are in agreement with the findings and will work diligently to abide by their recommendations for these findings. As is required by the Office of the State Comptroller, the Village will, within 90 days of the release of the final audit report, submit to the OSC, the Corrective Action Plan.

Many of the findings note undocumented procedure. It should be noted that the Board has been fully aware of all issues found to be undocumented and there has been Board oversight in place even if it is not shown in Board minutes or policies.

With regard to the recommendations, the Village Board has implemented remedies to #3 and #8 of the payroll portion of the report. The Village Board is now attaching a salary schedule of all employees to the annual budget and the Village Clerk/Treasurer now does a bi-weekly timesheet that is reviewed and signed by the Mayor.

With regards to the claims findings, the Board would like to go on record as stating that even though the Village did not meet the very strict legal standards for the oversight of the claims, to include the capital project claims, the Board believed that the oversight that they were providing was sufficient. The Village had hired engineers, accounting staff and funding agencies to review all capital project costs. The Board felt that with the knowledge that those entities possess, the oversight was sufficient.

The Village would also like to go on record, stating that the audit staff, the audit, and findings have been most helpful and educational for the Board of Trustees, regarding documentation practices and the oversight and division of departmental duties.

Yours Truly,

Timothy D. Maloney, Mayor

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objectives of our audit were to review internal controls over payroll and review the claims audit process at the Village for the period June 1, 2013 through December 31, 2014. We extended our scope back to calculate the former Clerk-Treasurer's salary for the 2012-13 fiscal year. To achieve our audit objectives and obtain valid audit evidence, we performed the following audit procedures:

Our review of payroll included the following:

- We gained an understanding of the Village's payroll process and evaluated the internal controls.
- We reviewed Board meeting minutes and the Village's Manual.
- We reviewed all separation payments made during the audit period.
- We confirmed employees or officials paid during the audit period were actual Village employees or officials by tracing to personnel files, Board minutes or leave requests signed by a department head.
- We judgmentally selected two months (November 2013 and November 2014) to review all payrolls. We selected these two months because all Village employees and officials (including the Board, which is paid quarterly) are paid in the month of November. We had no expectations of greater or lesser errors in making our selection. For all payrolls in these two months, we verified whether information for all employees and officials entered into the payroll system agreed with time records, if applicable, and determined whether employees were paid Board-authorized rates and if gross pay was calculated correctly.
- We traced leave from time cards and leave requests for employees who took leave in the months of November 2013 and 2014 to determine if leave was accurately recorded.
- We reviewed leave accrual records for all employees who received leave during our audit period to determine if the amount of leave earned was in accordance with Board authorizations.
- We reviewed payroll records to determine if the total amount that the Clerk-Treasurer was paid during our audit period agreed with Board authorizations.
- We reviewed computerized payroll data for our audit period for potential high-risk payments for further review. High-risk payments included payments of high dollar amounts, payments to employees after separation and payments to employees with an excessive numbers of pay checks. We selected one payment that we determined to be high risk (large dollar amount), made to the Superintendent. We reviewed the payment to determine if the payout was supported and authorized.

Our review of the claims audit process included the following:

- We interviewed appropriate Village officials to gain an understanding of the claims audit and approval process.
- We reviewed Board meeting minutes and related policies.
- We used a random number generator to select the test months of February 2014, April 2014 and August 2014 to review claims. We reviewed all 153 claims totaling \$601,840 that cleared the bank during our three test months. We tested claims to determine if they contained proper departmental approvals and sufficient supporting documentation, were for proper Village purposes and complied with Board-adopted policies. We also reviewed abstracts associated with the claims to determine if the Board approved the abstracts and if the Mayor certified the abstracts ordering the Clerk-Treasurer to pay the claims, and we examined related canceled checks and abstracts to ensure consistency with the claims.
- We judgmentally selected 18 claims paid during our audit period from canceled checks and bank statements totaling approximately \$1.2 million for examination. We selected these claims because they posed a higher risk of being inappropriate Village expenditures. Such payments included payments to Village officials, questionable purchases or higher dollar amounts, or both. We tested claims to determine if they contained proper departmental approvals and sufficient supporting documentation, were for proper Village purposes and complied with Board-adopted policies. We also reviewed abstracts associated with the claims to determine if the Board approved the abstracts and if the Mayor signed the abstracts ordering the Clerk-Treasurer to pay the claims, and we examined related canceled checks and abstracts to ensure consistency with the claims.

We conducted this performance audit in accordance with 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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DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

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Gabriel F. Deyo, Deputy Comptroller
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