



# Village of Gilbertsville

## Cash Receipts and Disbursements

### Report of Examination

Period Covered:

June 1, 2013 — July 14, 2014

2014M-267



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

February 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 Board of Trustees 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 Gilbertsville, entitled Cash Receipts and 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 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*

# Introduction

## Background

The Village of Gilbertsville (Village) is located in the Town of Butternuts in Otsego County and has approximately 400 residents. The Village provides various services to its residents including street maintenance and repair, general governmental support, water services and garbage collection. The Village's 2014-15 fiscal year budget appropriations for the general fund and water fund total approximately \$346,700, funded primarily by real property taxes, sales tax and user fees.

The Village is governed by an elected Board of Trustees (Board) which comprises two Trustees and a Mayor. The Board is the legislative body responsible for oversight and general management of Village financial operations. The Mayor is the Village's chief executive officer responsible for the day-to-day Village management. The Clerk-Treasurer, who is appointed by the Mayor, is responsible for maintaining custody of all Village money, maintaining the accounting records, preparing financial reports, billing and receiving water rent revenues as well as preparing and signing checks.

## Objective

The objective of our audit was to examine the Village's cash receipt and disbursement practices. Our audit addressed the following related question:

- Did the Board ensure that receipts were properly billed and accounted for and disbursements were for proper Village purposes?

## Scope and Methodology

We examined cash receipt and disbursement records for the period June 1, 2013 through July 14, 2014.

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

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded

to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk-Treasurer's office.

## Cash Receipts and Disbursements

The Mayor and Board are primarily responsible for oversight of Village financial operations. Oversight becomes particularly important as a compensating control<sup>1</sup> in operations where segregating incompatible duties is not practical. To adequately safeguard Village money, the Board, in conjunction with the Clerk-Treasurer, who acts as the chief fiscal officer, should establish and implement policies and procedures providing additional oversight, to help ensure that receipts are properly accounted for and disbursements are properly documented, audited and authorized prior to payment. The Board is also required to annually audit the records and reports of the Clerk-Treasurer.

The Board should improve its policies and procedures over cash receipts and disbursements to ensure that all receipts are properly billed and accounted for and disbursements are for proper Village purposes. Additionally, the Board did not conduct the required annual audit of the Clerk-Treasurer's financial records. As a result, errors and irregularities could occur and remain undetected and uncorrected, putting the Village's financial resources at a significant risk for loss or abuse.

### Board Oversight

The Board is responsible for establishing internal controls to provide reasonable assurance that cash is adequately safeguarded and financial transactions are properly and accurately recorded. The Clerk-Treasurer is primarily responsible for implementing such controls over cash receipts and disbursements. When it is not feasible to segregate duties because of limited staff resources, Village officials should institute compensating controls, such as having someone independent of the cash receipts and disbursements process review the bank statements, canceled check images, bank reconciliations and water billings.

The Clerk-Treasurer performs all financial duties relating to both collecting and disbursing Village money, as well as recording those transactions and reconciling the activity with the Village's bank, with limited oversight. However, the Board did not institute compensating controls to ensure that all receipts were properly accounted for and deposited and that disbursements were for proper Village purposes. Additionally the Board did not annually audit the Clerk-Treasurer's records or certify the list of unpaid water rents to be re-levied.

<sup>1</sup> Compensating controls are supervisory or other oversight procedures designed to reduce the risk of errors or fraud not being detected. Compensating controls frequently provide for regular review of work performed by individuals who have custody of assets and who also approve or record transactions affecting those assets.

The Board was not aware it should certify the list of unpaid water rents or that it was required to perform an annual audit.<sup>2</sup> Without proper Board oversight or compensating controls, there is an increased risk of errors or irregularities occurring and not being detected and corrected.

## Cash Receipts

Maintaining a water rents receivable control account provides an independent record that can be periodically reconciled with the detailed customer accounts maintained by the Clerk-Treasurer. Such an account helps ensure the accuracy of the records and may be used to detect errors or irregularities. Additionally, an up-to-date master list of water outlets by type<sup>3</sup> for each property, when compared to amounts billed for water services, can help ensure that the Village collects all money due for the water services provided.

Further, effective controls over cash collections require that employees issue press-numbered duplicate receipts and maintain an inventory of issued garbage stickers. Such records provide evidence for the cash payments collected to establish both individual and entity-wide accountability and help ensure that all money received is ultimately deposited into the Village's bank accounts.

During the 2013-14 fiscal year, the Clerk-Treasurer collected approximately \$25,000 in water rents and \$13,000 in garbage sticker<sup>4</sup> revenue. However, Village officials did not maintain a master list of water outlets by type for all the water services provided. As a result, officials could not be certain that the amounts the Clerk-Treasurer billed customers for water services were accurate. Additionally, she did not issue duplicate press-numbered receipts for any cash collected or maintain an inventory of issued garbage stickers.

Because of these weaknesses, we reviewed 53 real property tax receipts totaling \$30,855, all sales tax payments totaling approximately \$22,100, 13 miscellaneous cash receipts<sup>5</sup> totaling approximately \$17,300 and 17 water rent payments totaling \$2,400 to verify if the Clerk-Treasurer accurately billed, properly accounted for and deposited these receipts in a timely manner.

<sup>2</sup> We referred Village officials to our publication entitled *Fiscal Oversight Responsibilities of the Governing Board* available at: [http://www.osc.state.ny.us/localgov/pubs/lmgm/fiscal\\_oversight.pdf](http://www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf)

<sup>3</sup> Village water use is not metered; therefore, customers are billed annually for a basic dwelling fee of \$125, which includes one kitchen and one full-bathroom. The Village then bills an additional fee per outlet type, such as a dishwasher, washing machine or swimming pool.

<sup>4</sup> The Clerk-Treasurer sells stickers at the Village hall, or residents can purchase stickers at two satellite locations.

<sup>5</sup> These receipts consisted of receipts such as mortgage tax, garbage stickers and donations.

We found no significant discrepancies. However, we were unable to verify the propriety of the amounts billed for 15 water bills totaling \$2,453, because no up-to-date master list of water outlets by type for any properties was maintained. As a result, there are increased risks that money collected for water services may not be properly billed and garbage stickers may be issued inappropriately.

## **Cash Disbursements**

After the Board audits and approves the claims, the Clerk-Treasurer prints an abstract (i.e., list) of the Board-approved claims and manually prepares, signs and remits the check payments to the vendors. However, no one compares canceled check images shown on the bank statements with the approved abstracts to ensure that the checks clearing the bank are for proper Village purposes. Additionally, no one reviews the bank reconciliations or bank statements to ensure that all electronic transfers made are for proper Village purposes.

Because of these deficiencies, we compared 101 canceled check images totaling \$167,880 that cleared the bank during our audit period with the Board-approved abstracts to verify that these payments were properly authorized. We also reviewed 29 canceled check images totaling \$6,366 and all bank transfers totaling \$221,000 and verified that these disbursements were for legitimate Village purposes.

Our review disclosed no significant discrepancies. However, when canceled check images are not compared with the approved abstracts and bank reconciliations and bank statements are not reviewed, there is a risk that the Clerk-Treasurer could disburse money without the Board's knowledge.

## **Recommendations**

The Board should:

1. Establish and implement policies and procedures to provide additional oversight of the Clerk-Treasurer. Such compensating controls should include:
  - Issuing press-numbered duplicate receipts,
  - Creating and periodically updating a master list indicating the number and type of water outlets for each Village property,
  - Comparing canceled check images with the approved abstracts and
  - Reviewing bank reconciliations.
2. Perform an annual audit of the Clerk-Treasurer's records.
3. Certify the list of unpaid water accounts to be re-levied.



## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

## VILLAGE OF GILBERTSVILLE

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Mayor: Kenneth Nolan  
Clerk-Treasurer: Nicki McNeil  
DPW: Richard Gilbert

Trustee: Kristina Strain  
Trustee: Richard Crocco  
Historian: Leigh Eckmair

February 4, 2015

Office of the State Comptroller  
Binghamton Regional Office  
H. Todd Eames, Chief Examiner  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

Dear Mr. Eames:

On January 21<sup>st</sup>, the Mayor and the Clerk-Treasurer for the Village of Gilbertsville met with [REDACTED] and [REDACTED] for the exit conference of the audit conducted on Village financial records from June 1, 2013 to July 14, 2014. The purpose was to review and discuss the draft report of their examination of the Cash Receipts and Disbursements of the Village of Gilbertsville for the 2013-2014 fiscal year.

The actual audit process was helpful as the Village became aware of additional safeguards that could be utilized to provide improved cross-checks on monies received and disbursed. Both the Mayor and the Clerk-Treasurer are in agreement with the findings and suggestions made by the auditors for better monitoring of accounts. The Board of Trustees also agrees with the recommendations for improved controls over the Village funds.

The Village immediately proceeded to implement the recommendations made by the auditors. The Corrective Action Plan is included separately.

Sincerely,

Kenneth Nolan, Mayor

~ A National Register Historic Site ~

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed Village officials and tested selected cash receipt and disbursement records for the period June 1, 2013 through July 14, 2014.

- We interviewed Village officials and reviewed Board minutes and Village policies and procedures to obtain an understanding of the internal controls over cash receipts and cash disbursements.
- We reviewed 15 water bills to verify if the correct rates were being charged and recalculated the bills for accuracy. To select our sample, we chose every 20th customer listed on the water rent master parcel list report and the unpaid water rent report, which resulted in 10 customers. We then selected five Village employees' water bills, which represented higher risk accounts.
- We reviewed 17 water payments and traced them to the accounting records to verify if the payment amounts were recorded properly and to deposit tickets to verify if the payments were deposited intact and in a timely manner. We used our previously selected sample of 15 (which included one of three water service accounts located outside the Village) and selected the two remaining water service accounts located outside the Village for our sample.<sup>6</sup>
- We reviewed a sample of 13 general fund cash receipts and traced them to deposit tickets to verify what they were for and that they were deposited timely and intact as well as posted to the correct account. We selected our sample by choosing the second cash receipt each month of our audit period from the manual water rents cash receipt book.
- We reviewed all general and water fund bank statements received during our audit period. We traced all bank transfers from these statements to another Village bank account and verified that the transfers were properly recorded and Board-approved.
- We compared 101 canceled check images with the Board-approved abstracts to verify that these disbursements were properly authorized. To select our sample, we chose every fourth month during our audit period, and we reviewed all checks disbursed during those months.
- We reviewed 29 canceled check images to verify that these disbursements were adequately supported, Board-approved and legitimate Village purchases. We selected our sample by choosing all non-payroll checks written to each Village employee during our audit period, for a total of 14 checks. For the remaining 15 checks, we selected higher-risk vendors based on vendor type.<sup>7</sup>

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

<sup>6</sup> The Village cannot re-levy unpaid water rents for the accounts located outside the Village, which represents a higher risk for collecting any unpaid bills.

<sup>7</sup> We included disbursements paid to vendors for utilities, cable and internet services, telephone and fuel. We also included any vendors in our sample where disbursements could be personal in nature.

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