



# Village of Mount Morris

## Treasurer's Office

### Report of Examination

Period Covered:

June 1, 2010 — February 12, 2013

2013M-65



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**

May 2013

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Village Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Village of Mount Morris, entitled Treasurer's Office. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Village of Mount Morris (Village) is located in the Town of Mount Morris in Livingston County, and has a population of approximately 3,000 residents. The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is the legislative body responsible for the general management and control of the Village's financial affairs.

The Village Treasurer<sup>1</sup> (Treasurer), as chief fiscal officer, is responsible for the receipt, disbursement, and custody of Village moneys in addition to maintaining the accounting records and preparing monthly and annual financial reports. The Village hired an accounting firm (Firm) to maintain the Treasurer's accounting records, prepare and process payroll and disbursement checks, prepare bank reconciliations, and prepare the Treasurer's monthly and annual financial reports.

The Village provides a variety of services to its residents including street maintenance and improvements, snow removal, public improvements, recreation and cultural activities, fire protection, water and sewer services and general government support. The Village's adopted budget for the 2012-13 fiscal year totaled more than \$3 million for the general, water and sewer funds. The Village derives the majority of the moneys to finance these services from real property taxes, sales tax and user charges.

## Objective

The objective of our audit was to review the Village's financial operations. Our audit addressed the following related question:

- Did the Board provide sufficient oversight of the Treasurer's Office to ensure financial operations were properly overseen?

## Scope and Methodology

We examined the Treasurer's Office for the period June 1, 2010, to February 12, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

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<sup>1</sup> The prior Clerk-Treasurer retired November 26, 2010 and the Village decided to separate the Clerk-Treasurer position to provide a segregation of duties. In November 2010, the Village developed job duties for the Clerk and Treasurer positions with the assistance of a consultant.

**Comments of  
Local Officials and  
Corrective Action**

The results of our audit and recommendations have been discussed with Village officials and their comments, which include comments from the Firm, appear in Appendix A, and have been considered in preparing this report. Village officials agreed with our recommendations and indicated they have initiated corrective action. Appendix B includes our comments on the issues raised in the Village's response letter.

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

## Treasurer's Office

The Treasurer is responsible for the receipt, disbursement, and custody of Village moneys. In addition, the Treasurer must maintain accurate and complete accounting records and reports. The Board hired an accounting firm (Firm) to perform many of the Treasurer's duties, such as maintaining the accounting records, preparing and processing payroll and disbursement checks, preparing bank reconciliations, and preparing the Treasurer's monthly and annual financial reports. The Treasurer is responsible for the oversight of the Firm and the billing of real property taxes and water and sewer services. The Treasurer was unable to provide adequate oversight of those performing her duties and the Board did not perform an annual audit.

### Use of Independent Contractor

Complete, accurate, and timely financial information is essential for the Board to properly manage Village operations. The Treasurer is responsible for maintaining the accounting records, preparing the annual financial report, and having custody of all Village moneys. The Board may retain consultants to advise and assist Village officers and employees in the performance of their duties. However, only those functions which may properly be characterized as ministerial, can be performed by an independent contractor and only so long as the appropriate Village officials retain ultimate responsibility for the performance of their discretionary functions.<sup>2</sup>

Because the former Clerk-Treasurer failed to maintain the Village's books and records for the last six months of her employment, the former Mayor entered into a contract with the Firm to provide accounting services that delegated virtually all the Treasurer's duties to the Firm. These duties included maintaining the accounting records by recording all cash receipts and disbursements, preparing and processing bi-weekly payroll and quarterly payroll reports, and preparing all disbursement checks, bank reconciliations, and the Treasurer's monthly and annual financial reports. Although we found these duties to be performed in a professional manner, the Board delegated what could be considered ministerial tasks and prevented the Treasurer from performing the discretionary functions incumbent to the office of Treasurer.

In addition, the Treasurer was unable to provide adequate oversight of the work performed by the Firm because the contract was vague as to

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<sup>2</sup> Discretionary acts involve the exercise of reasoned judgment, which could typically produce different acceptable results, whereas a ministerial act envisions direct adherence to a governing rule or standard with a compulsory result.

when and how these duties were to be performed. The Treasurer also did not require the Firm to provide financial reports in time for her to review them prior to providing them to the Board. Consequently, the Treasurer does not have adequate control of her financial records, nor is she able to adequately monitor those performing her financial duties. For example:

- The Firm does not provide the Treasurer with monthly financial reports in a timely manner. Generally, the Firm provides the monthly reports either the day of or at the Board meeting.<sup>3</sup> In addition, the Firm did not provide the Treasurer with any monthly bank reconciliations until January 2013. The Treasurer stated that the Firm did not provide the monthly general ledger reports and trial balances during the first six months of the contract<sup>4</sup> even though she had repeatedly requested them during this time. As a result, she could not verify the accuracy or completeness of any of the monthly reports prior to their presentation to the Board.
- While processing payroll, the Firm had access to the Village's bank accounts because it prepared and initiated the electronic funds transfers to fund payroll direct deposits and pay withholdings to the designated agencies.<sup>5</sup>
- The Firm did not provide the annual reports to the Treasurer for her review in a timely manner.<sup>6</sup> As a result, the Treasurer submitted the 2012 annual report on the due date and had to request a 60-day extension to file her 2011 annual report.
- The Firm's contract does not address the safeguarding of financial data or back-up procedures. As a result, there is an increased risk that the Village's financial data, including personal information may be lost, stolen or subject to unauthorized access.

The contract for accounting services did not detail how monthly reports were to be prepared, or provide dates for completion of annual, monthly or payroll reports or other tasks such as bank reconciliations. The contract also did not contain any provision for the Treasurer

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<sup>3</sup> Board meetings are held on the first and third Mondays of each month. The financial reports are provided at the second meeting.

<sup>4</sup> The contract began January 1, 2011.

<sup>5</sup> The Firm makes payroll transfers from general, water, and sewer bank accounts to the trust and agency bank account.

<sup>6</sup> General Municipal Law requires the Village to file its annual report within 60 days of the close of its May 31 fiscal year, and allows for a 60-day extension of that deadline. The 2011 annual report was filed on September 30, 2011, and the 2012 annual report was filed July 30, 2012.

to exercise her discretionary authority by reviewing reports prior to presentation to the Board or other governmental entities or by providing input and approval over discretionary accounting decisions, such as the recording of receivables, liabilities and other accounting treatments. The Village has no assurance that accounting records prepared on behalf of the Village were prepared accurately. More importantly, the practice of allowing the Firm access to the Village's bank accounts circumvents the Village Law provision that only the Treasurer is permitted to disburse Village moneys.

The Treasurer informed us that she made repeated requests for financial reports and bank reconciliations to be provided to her for review prior to Board meetings; however, the Firm did not provide them.

Because of these concerns, we reviewed transactions including all 43 receipts totaling \$496,223 and 163 disbursements totaling \$679,881 as recorded in the general, water, and sewer funds by the Firm for the month of May 2012. Included in these cash receipt and disbursement transactions were 19 electronic wire transfers, the majority of which were transfers between the Village's bank accounts or to other governments. Although we found that the Firm did keep appropriate records, the lack of oversight increases the risk of errors or irregularities. Furthermore, because the Firm did not provide financial reports in a timely fashion the Treasurer's ability to perform the duties of her office and the Board's ability to monitor the Village's financial condition were diminished.

## **Annual Audit**

Village Law requires the Board to audit the Treasurer's annual financial reports and supporting records, or cause them to be audited by a Village officer or employee or a certified public accountant. This annual accounting provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Village's fiscal procedures and activities. The audit also provides independent verification that the records have been maintained in accordance with established procedures, transactions have been properly recorded, and cash has been properly accounted for.

As of February 12, 2013, the Board has not audited or caused to be audited the Treasurer's records and reports for the fiscal years ended May 31, 2011 and 2012. Without an annual audit, the Board has limited assurance that financial records are accurate and that Village assets are effectively managed. The failure to perform an annual audit diminishes the Board's ability to effectively monitor the Village's financial operations and could result in errors or irregularities

occurring and remaining undetected and uncorrected. Furthermore, the annual audit would provide the Board a chance to assess the timeliness of the books and records and enable the Board to assure that the books are up-to-date at year end to allow for the filing of the annual report in a timely manner.

## **Recommendations**

1. The Board should enter into a new contract for accounting services that permits the Treasurer to perform her discretionary duties and provides details on the work to be produced including deadlines for completion.
2. The Board should have a contract with the Firm that clearly describes the procedures to safeguard sensitive information and routinely back up the accounting records.
3. The Board should annually audit, or cause to be audited, the financial records and reports.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

**PLEDGE OF ALLEGIANCE**



**LISA TORCELLO**  
Clerk

**CHERYL CAPPADONIA**  
Treasurer

Village of Mount Morris  
117 Main Street  
Mount Morris, New York 14510  
Phone: (585) 658-4160 · Fax: (585) 658-2473  
TTY: 1-800-662-1220 or 1-800-421-1220

**JOEL W. MIKE**  
Mayor

May 2, 2013  
Edward V. Grant, Jr.  
Chief Examiner  
Division of Local Government and School Accountability  
Re: Response to preliminary draft findings

Mr. Grant:

We have reviewed your preliminary draft findings of your recent examination of the Village of Mount Morris Treasurers office.

We agree with your recommendations and have begun the process of implementing a corrective action plan.

We recognize the need for improvement, but respectfully feel that your findings are based on incomplete, and in some cases, inaccurate information.

See  
Note 1  
Page 16

We have discussed this matter with our accounting firm (referred to as "the Firm" in your documents) and a response from them is attached.

Kindest regards.



Joel W. Mike  
Mayor  
Village of Mount Morris

*Birthplace of Francis Bellamy • His Word Became a Nation's Pledge  
"The Village of Mount Morris is an equal opportunity provider, and employer."*

# LaDelfa, Schoder & Walker, P.C.

A PROFESSIONAL CORPORATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

JON M. LADELFA, CPA/ PFS  
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April 30, 2013

Mr. Joel Mike, Mayor  
Village of Mount Morris  
117 Main Street  
Mount Morris, New York 14510

Dear Mayor Mike:

Per your request, we have reviewed the draft findings of the Office of State Comptroller regarding the recent examination of the Village of Mount Morris Treasurer's Office for the period June 1, 2010 – February 12, 2013. This letter is written to provide you with the details of the many inaccuracies, errors and incorrect conclusions that have been reported in their findings.

See  
Note 1  
Page 16

In the introduction to the draft report, in the second paragraph under Background, the report states that: "*the Village hired an accounting firm (Firm) to maintain the Treasurer's accounting records, prepare and process payroll and disbursement checks, prepare bank reconciliations, and prepare the Treasurer's monthly and annual financial reports.*" We believe this statement is inaccurate; the Village hired our Firm to **ASSIST** the Treasurer in maintaining the accounting records, preparing and processing payroll and disbursement checks, preparing bank reconciliations, and preparing the Treasurer's monthly and annual financial reports. This was our understanding and we believe the understanding of the Village Board.

See  
Note 2  
Page 16

The report states that the objective of the audit was to review the Village's financial operations. That was our understanding when this process began. We then find it curious that the only related question that arose was: "*did the Board provide sufficient oversight of the Treasurer's Office to ensure financial operations were properly overseen?*" This is curious especially in light of the fact that during the audit period, prior to our engagement, the general ledger was out of balance, bank accounts went unreconciled, and no meaningful financial report was provided to the Board on any consistent basis.

See  
Note 3  
Page 16

Under the caption, Treasurer's Office, the report states in the last sentence of the first paragraph that: "*the Treasurer was unable to provide adequate oversight of those performing her duties.*" This is the auditor's judgment. If indeed true, the auditor's further conclusion that the Treasurer was unable to adequately provide oversight because the Firm somehow usurped her authority or provided her information that could not be reviewed in a timely manner, is not correct. We believe there is another reason. Please consider that when we were approached by the former Mayor and Village Trustees, they indicated to us that they had no meaningful financial information since the previous Treasurer retired. The books were out of balance, their

See  
Note 4  
Page 16

112 MAIN STREET, PO BOX 100  
MT. MORRIS, NEW YORK 14510-0100

accounts were not reconciled and they had hired another (non-CPA) accounting firm to assist the Treasurer. It is our understanding that that accounting firm was unable to reconcile the Village's bank account. The Village Board understood the mess that was their accounting records. They requested our assistance knowing that we were a Certified Public Accounting firm with experience with municipalities.

After our review of the records, discussions with the ex-Mayor, Treasurer and other Village employees, we felt that we could reconcile the bank accounts and all other accounts of the Village, assist in their payroll preparation and provide the Board with a meaningful monthly financial report. However, we did underestimate the time that would be required to do so. In addition, after working with the Treasurer, it was our opinion that she did not possess the requisite skills, experience, temperament or aptitude necessary to perform the job that she was charged with. We voiced those concerns to the former Mayor and Vice-Mayor at a meeting in our office where we recommended that she be replaced. The Mayor did not take our advice. We feel the reason that she was unable to provide adequate oversight of those performing her duties is because of the inadequacies mentioned above.

See  
Note 5  
Page 16

Under the caption "Use of Independent Contractor," the report states that: "*the Board entered into a contract with the Firm to provide accounting services that delegated virtually all the Treasurer's duties to the Firm.*" Please be advised that we only perform a bookkeeping function. We record cash receipts and disbursements based on information provided by the Treasurer and subject to her review. We prepare the payroll and payroll reports from information provided by the Clerk and reviewable by the Treasurer. We prepare disbursement checks, bank reconciliations and monthly financial reports all from information provided by the Treasurer and subject to her review. In this regard, we are only providing a bookkeeping service, which is a ministerial task. Since all the information we provide is subject to the Treasurer's review, we did not exercise any discretionary functions. In no way did we prevent the Treasurer from performing her discretionary functions on any report or information that we provided to her.

See  
Note 2  
Page 16

See  
Note 4  
Page 16

The draft report states that: "*the Treasurer was unable to provide adequate oversight of the work performed by the Firm because the contract was vague as to when and how these duties were to be performed.*" We take exception to this statement and find it to be incomprehensible. Our contract was not vague but rather quite specific. The Treasurer knew what we were doing, when we were doing it, and how we were doing it. Our contract has nothing to do with her inability to provide adequate oversight of the work we performed.

See  
Note 6  
Page 16

See  
Note 5  
Page 16

We would like to specifically address the four bullet points listed in the section of the report "Use of Independent Contractor."

- *The Firm does not provide the Treasurer with monthly financial reports in a timely manner. Generally, the Firm provided the monthly reports either the day of or at the Board meeting. In addition, the Firm did not provide the Treasurer with any monthly bank reconciliations until January 2013. The Treasurer stated that the Firm did not provide the monthly general ledger reports and trial balances during the first six months of the contract even though she had*

*repeatedly requested them during this time. As a result, she could not verify the accuracy or completeness of any of the monthly reports prior to their presentation to the Board.*

Response: We have always provided monthly reports based on when we were provided with information from the Treasurer's office, including cash receipts detail, water and sewer controls and bank statements. This information has historically been provided just prior to meetings where we were expected to provide a report. It was not unusual to receive the information on a Friday afternoon when the next Board meeting was scheduled for the following Monday. It was also not unusual to have to request cash receipts detail and water & sewer controls multiple times before they would be provided.

See  
Note 7  
Page 16

Bank reconciliations were prepared monthly and available at any given time. When requested, copies of all historical bank reconciliations were provided promptly.

See  
Note 8  
Page 16

During the first five months of our engagement (January 1, 2011 – May 31, 2011), the general ledger was maintained by the Treasurer through her use of [REDACTED] software. At that time we were only printing checks for cash disbursements and payroll at our office. The Treasurer continued to use [REDACTED] to record all cash receipts and disbursements. As the general ledger was kept at the Treasurer's office, it would not have been possible for us to provide it to her.

See  
Note 9  
Page 17

- *While processing payroll, the Firm had access to the Village's bank accounts because it prepared and initiated the electronic funds transfers to fund payroll direct deposits and pay withholdings to the designated agencies.*

Response: The access that we have to the Village's bank accounts is granted by the Treasurer. The Treasurer is the administrator of the internet banking system and, as such, authorizes both who can access the system and what tasks each user can perform within the system. The system utilizes a [REDACTED] token which provides an entry code that expires every 30 seconds; each user has their own user name, password, and token.

See  
Note 10  
Page 17

The Treasurer has sufficient time to review all initiated electronic funds transfers to fund payroll and withholdings to designated agencies prior to the pay date.

- *Even though the Treasurer requested 60-day extensions to file her annual reports with the Office of the State Comptroller for the 2011 and 2012 fiscal years, the Firm did not provide the reports to Treasurer for her review in a timely manner.*

Response: While an extension request was made for the fiscal year end May 31, 2011, please note that an extension was not requested for the fiscal year end May 31, 2012. Because of the condition of the records for the fiscal year end May 31, 2011, an extension was undoubtedly necessary. The annual report was filed on the due date; if the

Treasurer's review of that report resulted in necessary modifications, an amendment would be an available solution.

For the fiscal year end May 31, 2012, if the Treasurer expressed the need for more time to review the annual report before filing, an extension period was available.

- *The Firm's contract does not address the safeguarding of financial data or back up procedures. As a result, there is an increased risk that the Village's financial data, including personal information may be lost, stolen or subject to unauthorized access.*

Response: While not addressed in the contract, these issues were discussed with the Mayor and the Vice-Mayor during the initial engagement meeting. These safeguards include on-site daily backups, encryption and fire-wall protection. These safeguards exceed what is available at the Village office.

See  
Note 11  
Page 17

The report of preliminary findings states that the contract for accounting services did not provide how reports were to be prepared or provide dates for completion of annual monthly or payroll reports or bank reconciliation. The report also states that the contract did not contain any provision for the Treasurer to exercise her discretionary authority by reviewing reports prior to presentation to the Board. We believe these comments to be without merit. Our contract has no responsibility to indicate how reports are to be prepared. It was understood that we would prepare certain reports. The due dates for reports are implied. Monthly means monthly, the annual report has a published due date, bank reconciliations are prepared in a timely fashion. All this was implied in the contract and not once did we have a complaint from the mayor or any board member. Our contract was not required to have language in it that the Treasurer has the ability to exercise her discretion or approval over our reports. Our reports were given to her and the Board. At that point, she and the Board have complete control of the information. If changes needed to be made, they had complete discretion to have us change any information they deemed fit.

See  
Note 6  
Page 16

See  
Note 4  
Page 16

See  
Note 6  
Page 16

See  
Note 4  
Page 16

The preliminary findings also stated: "*the Village has no assurance the accounting records prepared on behalf of the Village were prepared accurately.*" Again, we take exception to this comment. Before our involvement, the Village was assured that the accounting records were inaccurate. Their general ledger did not balance, their bank accounts did not reconcile and they were in a blind leading the blind situation. The Village Board acted prudently and judiciously by bringing us in to rectify the situation. Since the audit team did not find any errors, I would say that there is some assurance that the records are now accurate.

See  
Note 3  
Page 16

We find it incomprehensible that during the entire audit period, no member from the audit team ever interviewed us or had any questions or discussions with us regarding the examination. In fact, we requested to be included in the exit interview but were denied. If the focal point of the audit was the Treasurer's office and we were an integral part of providing reports to the Treasurer, we would logically be expected to be questioned if for no other reason

See  
Note 12  
Page 17

See  
Note 13  
Page 17

than to provide corroborative evidence that the Treasurer was providing accurate information to the auditors. This is especially true, when in this case, the Treasurer would be in a defensive position relative to her responsibilities and job performance. In other words, it seems that the Treasurer would have everything to gain by deflecting any shortcomings or problems uncovered by the auditors to someone other than her.

See  
Note 14  
Page 17

Since we are a CPA firm, we are licensed and trained as auditors. We feel that the State Comptroller's Office disregarded certain fieldwork standards for performing audits under Government Auditing Standards. By not speaking to us, the audit team did not verify the information obtained from the Treasurer by obtaining corroborating evidence from us as a third party (paragraph 7.57, 7.70 and 7.71 of Governmental Auditing Standards, Chapter 7, Field Work Standards).

See  
Note 5  
Page 16

If finalized and available to the public, we believe the many errors, inaccuracies, and innuendo contained in the draft findings of the audit report, may rise to the level of libel towards our firm. We intend to protect our reputation to the fullest extent of the law.

See  
Note 15  
Page 17

See  
Note 16  
Page 17

We recommend that you include this letter with your response to the audit. We further recommend that you demand that the audit team not issue a final report until they meet with your audit committee and our firm in a joint meeting to discuss and resolve the inaccuracies contained in their preliminary findings.

See  
Note 17  
Page 18

Very truly yours,

LaDELFA, SCHODER & WALKER, P.C.

  
Jon M. LaDelfa, CPA/PFS

JML/tlm

## APPENDIX B

### OSC COMMENTS ON THE VILLAGE'S RESPONSE

#### Note 1

Village officials never expressed any disagreement with our findings during any of the meetings we held with them to discuss our findings or the preliminary draft report. Our report accurately conveys our findings and is based on facts.

#### Note 2

The contract with the Firm specifically states in the scope of services that the Firm will “prepare” all these items, not “assist” the Treasurer. In fact, there is no mention of the Treasurer in the contract except that she is to receive a copy of the monthly report.

#### Note 3

We recognize that the Firm was hired to bring the Village's accounting records and reports into balance and up-to-date after the former Clerk-Treasurer retired and we agree that the Firm did do that.

#### Note 4

The former Mayor entered into a contract with the Firm that delegated duties in excess of what could be considered ministerial tasks and prevented the Treasurer from performing the discretionary functions incumbent to the office of Treasurer.

#### Note 5

Regardless of any opinion about the Treasurer's abilities, the discretionary functions incumbent to the office of Treasurer cannot be transferred to a vendor by contract.

#### Note 6

The contract is vague as to when and how services were to be performed.

#### Note 7

Both the Treasurer and former Mayor stated that the monthly reports prepared by the Firm were provided on the day of the Board meeting, which we were able to confirm by comparing the report date with the Board minutes. For example, as noted in the August 13, 2012 Board minutes, the July report was not received in a timely manner, so the Board did not approve it at that time.

#### Note 8

Bank reconciliations were not available for review until almost the end of fieldwork even though the Treasurer made multiple requests for them.

Note 9

The Treasurer maintained a computerized record/listing of cash receipts and disbursements, but the Firm maintained the general ledger as required per the contract. The Firm's contract for the period January 1, 2011 through May 31, 2011, specifically states that the Firm was to prepare monthly adjusting journal entries as necessary, prepare the general ledger, and provide a copy to the Village on a monthly basis. If the Firm maintains that this was not done, then the Village overpaid the Firm for services not provided per the contract.

Note 10

The Treasurer must be the custodian of all Village funds. This responsibility cannot be granted to the Firm because it is a clear violation of law.

Note 11

The response supports our point that a number of important issues were not addressed in the contract. Having them incorporated in the contract will clearly define the responsibilities of the parties.

Note 12

At the entrance conference, we were directed by the former Mayor to channel all our questions and requests for information through the Treasurer.

Note 13

In accordance with our policies, we met with the current Mayor and the Treasurer at the exit conference. No request was made to our office by Village officials or the Firm to include the Firm at the exit conference.

Note 14

We corroborated the Treasurer's statements through interviews with the Clerk and the Mayor, as well as direct observation and a review of the records and reports available at the Village's offices.

Note 15

This comment appears to be based on Government Accountability Office (GAO) standards from 2007; revised government auditing standards were issued in December 2011. Furthermore, the standards provide audit guidance, not specific audit procedures that must be followed.

Note 16

Our report accurately conveys our audit findings and is based on facts.

Note 17

The Village does not have an audit committee. We met with the Mayor and Treasurer as required by our policy. Village officials never expressed any disagreement with our findings during any of the meetings we held with them to discuss our findings or the preliminary draft report.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, cash receipts and disbursements, claims processing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions and reviewed pertinent documents, such as Village policies and procedures manuals, Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected the Treasurer's Office for further audit testing. Our procedures included the following:

- We interviewed Village officials and reviewed payroll records to gain an understanding of controls over payroll, and receipts and disbursements.
- We randomly selected five employees from one bi-weekly payroll from nine quarters (45 transactions in total) within our audit period to determine if the employees were paid the correct amount.
- We selected 43 receipts and 163 disbursements in the general, water and sewer funds for May 2012 totaling \$679,881 and compared them to the bank statements to determine if the amounts were properly recorded.
- We randomly selected 27 account codes from the 2011-12 annual financial statement to determine if they were properly footed.
- We compared the total real property tax for the fiscal years ended May 2012 and 2013 to the Board approved tax levies and adopted budgeted amounts to verify accuracy.
- We compared the taxes received in 2012-13 to the paid tax list to verify accuracy. We also, selected 196 transactions, including the largest deposit totaling \$209,037 (June 2012) and 11 transactions and deposits with penalties totaling \$9,335 (August 2012) comparing the bills to the receipts for accuracy.
- We tested 129 transactions and the largest deposit for water and sewer rents for May 2012 totaling \$19,963 to determine if the bills footed properly.
- We traced all transactions from the May 2012 abstract 17 totaling \$37,752 to the supporting claims, bills, approved vouchers and cancelled check images on June 2012 bank statements.

- We selected 17 vouchers from October 2011 totaling \$97,514 and 10 vouchers from May 2012 totaling \$9,504 to determine if they were approved by the Board, properly itemized and documented.

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

## APPENDIX D

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