



Village of Nelsonville

Financial Operations

Report of Examination

Period Covered:

June 1, 2011 — August 31, 2012

2012M-242



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 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 Nelsonville, entitled Financial Operations. 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 Nelsonville (Village) is located in the Town of Philipstown, Putnam County, and has a population of 628 residents. The Village is governed by an elected Board of Trustees (Board) which comprises a Mayor and two Trustees. The Board is the legislative body responsible for the general oversight of the Village's operations. The Mayor is the chief executive officer. The Clerk-Treasurer is the chief fiscal officer and is responsible for the custody of Village moneys, maintaining appropriate accounting records, and preparing interim and annual financial reports. The Clerk-Treasurer also assumes the duties of the Village court clerk and is the Village's only full-time employee. Budgeted appropriations for the 2012-13 fiscal year were \$531,000, funded primarily with real property taxes and State aid.

Objective

Our audit objective was to examine the Board's financial oversight activities. Our audit addressed the following related question:

- Did the Board provide proper oversight of the Village's financial operations and properly segregate financial duties?

Scope and Methodology

We examined internal controls related to the Board's oversight of Village financial operations for the period June 1, 2011 to August 31, 2012.

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 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.

Financial Operations

The Board is responsible for overseeing the Village's financial operations and ensuring that adequate internal controls are in place to safeguard its resources. The Board fulfills this responsibility, in part, by establishing policies and procedures that segregate the duties of processing cash receipts and disbursements and ensure that financial transactions are properly authorized and recorded. The Board also must make certain that the Clerk-Treasurer's financial reports are accurate, reliable, and submitted in a timely manner. Furthermore, the Board must annually audit, or cause to be audited, the Clerk-Treasurer's financial records and reports.

The Board needs to improve its oversight of the Village's financial operations. The Board did not develop policies and procedures for the Clerk-Treasurer to follow when performing cash receipts and disbursement duties and did not audit, or cause to be audited, the Clerk-Treasurer's financial records and reports on an annual basis. The Board did not ensure that bank reconciliations were properly performed and did not ensure that the Village payroll was certified, as required by law. In addition, the Board did not provide mitigating controls to compensate for the lack of segregation of financial duties. As a result, there is an increased risk of errors and irregularities occurring without detection.

Segregation of Duties

Proper internal controls ensure that duties are adequately segregated so that one person does not control all phases of a transaction. When an individual performs all the duties related to cash collections or disbursements, recordkeeping, and reconciliation of accounts, there is an increased risk that cash could be misappropriated without detection. If limited staffing makes it difficult to segregate incompatible duties, the Board should consider implementing compensating controls. For example, the Board could regularly review bank statements, canceled checks, cash receipt records, and reconciliations, and compare them to the monthly records provided by the Clerk-Treasurer.

The Clerk-Treasurer is responsible for all financial duties, including collecting and disbursing moneys and maintaining and reconciling the accounting records, with little oversight. Further, the Board did not adopt policies and procedures relevant to the Village's financial operations to guide the duties of Clerk-Treasurers. For example, the Village did not adopt formal cash receipt and disbursement policies and procedures.

Due to these weaknesses, we examined the Village's claims paid for two consecutive months¹ totaling \$41,843 to determine whether they were valid Village expenditures. Although our examination did not reveal any significant discrepancies, this does not diminish the need for the Board to establish comprehensive policies and procedures to provide guidance and accountability over these functions. This should include adequately segregating duties and providing oversight of the Clerk-Treasurer's duties to reduce the risk that errors and irregularities may occur and remain undetected.

Annual Audit

Village Law requires the Board to annually audit, or have a Village officer, employee, or an independent public accountant audit, the records and reports maintained by the Clerk-Treasurer. This annual audit is an important internal control over cash receipts and disbursements, providing independent verification that transactions have been properly recorded and reported and that cash has been properly accounted for. It also provides Board members with added assurance that the financial records and reports contain reliable information on which to base management decisions.

The Board did not audit or contract with an independent auditor to audit the Clerk-Treasurer's financial records during our audit scope and Village officials told us that they were not aware of any audit for prior fiscal years. This lack of oversight diminishes the Board's ability to monitor financial operations and could result in the Board's failure to detect cash receipt or disbursement transactions that were not properly recorded or reported by the Clerk-Treasurer.

Bank Reconciliations

The monthly reconciliation of bank balances to general ledger cash balances is essential to ensure that Village records reflect correct cash balances and that cash is safeguarded. Accurate and complete bank reconciliations include timely identification and documentation of any differences. Bank reconciliations also provide the opportunity for an internal verification of cash receipts and disbursements.

The Village had six bank accounts with a combined balance of \$372,092 as of August 31, 2012. The Clerk-Treasurer did not properly perform bank reconciliations for the general checking and the trust and agency accounts and the Board did not review the reconciliations. While the Clerk-Treasurer maintained a general ledger balance, she did not compare the bank balance to the general ledger balance to identify variances and discrepancies. Prior to the end of fieldwork, the Treasurer began to properly reconcile the general checking account. In addition, the Clerk-Treasurer did not reconcile the other four bank accounts, which had a combined balance of \$117,515 as of August 31, 2012. The Treasurer explained that she does not reconcile the four

¹ We examined the months of December 2011 and January 2012.

accounts because they do not have any activity. In the absence of any activity, the Clerk-Treasurer should still perform reconciliations and report the current cash balances to the Board.

The Board's failure to ensure that the Clerk-Treasurer properly completes monthly bank reconciliations for all Village accounts increases the risk that discrepancies could occur and not be detected or resolved in a timely manner.

Payroll Certification

An effective internal control over payroll processing requires supervisory approval, or certification, of the complete payroll prior to issuing employee paychecks. Payroll certification should involve a Village official examining the payroll and certifying that the persons included have worked the hours claimed and are paid at Board-approved rates for their services. The law requires the Village's payroll to be certified.

The Clerk-Treasurer processes all payroll transactions without anyone reviewing her work. Payrolls were not certified during our audit period because Village officials and staff were not aware of the requirement. We reviewed all payroll transactions, totaling \$46,649, for the fiscal year ending May 31, 2012 to ensure that employees were paid in accordance with Board-approved salaries. We found that the Clerk-Treasurer erroneously deducted an excess \$240 from the Mayor's pay for retirement, and did not deduct the Medicare and social security tax from the salaries of three employees during the month of July 2011. The Clerk-Treasurer said that she did not know the correct tax rate. When she received the correct rate, she deducted a smaller amount from the employees' pay to balance out the total deductions.

By not reviewing and certifying the payroll, the Board cannot be assured that all payroll transactions are accurate. Furthermore, irregularities and errors could occur and go undetected.

Recommendations

1. The Board should adopt cash receipts and disbursement policies and procedures.
2. The Board should segregate the Clerk-Treasurer's duties or provide adequate oversight of work performed.
3. The Board should audit, or cause to be audited, the financial records and reports of the Clerk-Treasurer on an annual basis.
4. The Board should ensure that the Clerk-Treasurer reconciles all the bank accounts monthly.
5. The Board should certify the payroll before the checks are processed.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



VILLAGE OF NELSONVILLE

258 MAIN STREET, NELSONVILLE, NEW YORK 10516 (845) 265-2500, (845) 265-2351, FAX

February 20, 2013

[REDACTED]
Office of the State Comptroller
33 Airport Center Drive
Suite 103
New Windsor, NY 12553-4725

Dear [REDACTED]:

The Village of Nelsonville would like to submit our combine Audit Response and Corrective Action Plan (CAP) to the Office of the State Comptroller's recent draft report on the Villages Board oversight and selected financial activities for the audit period of June 1, 2011 through August 31, 2012 – Audit Number 2012M-242.

The Board has acted on and adopted procedures to remedy these recommendations at our Board of Trustees meeting on February 19, 2013.

Audit Response:

The Board generally agrees with the overall findings of the draft audit. The Board has taken steps to correct the financial oversight. The bank reconciliations are being done monthly and presented to the Board. The Village has acquired a financial software package for the Clerk-Treasurer to better perform her job. Treasurer reports are presented at each of the Board meetings. Board audits were done in the past, but were not being done regularly. The Board will ensure that this is done.

The Board has not segregated the Treasurer's duties. It is the Board's opinion that due to the fact that she is the only full-time employee and that the Village does a relatively small amount of business, that the Board can oversee the Treasurer's transactions. The Board signs all bills before payment, and receives monthly budget vs. actual reports. The audit did not find any significant discrepancies in the Treasurer's handling of the Village's transactions. As per the audit's recommendation, the Mayor will, going forward, certify the payroll monthly.

Thomas Corless, Mayor

Pauline T. Minners, Clerk-Treasurer, Anthony D. Merante, William S. Duncan, Trustees

At the Board of Trustee's meeting on February 19, 2013, the Board adopted a cash receipts and disbursement policies and procedures that will be followed going forward.

Corrective Action Plan:

Audit Recommendations:

The Board should adopt cash receipts and disbursement policies and procedures.

Implementation Plan of Action

The Board agrees that written policies and procedures should be established

Implementation Date:

Adopted policies on February 19, 2013

Person Responsible for Implementation:

Board

Audit Recommendations:

The Board should segregate the Clerk-Treasurer's duties or provide adequate oversight of work performed

Implementation Plan of Action

The Clerk-Treasurer is the only full-time employee for the Village, and therefore it is not feasible to segregate the duties performed. As a result, the Board will regularly review bank statements, canceled checks, cash receipts records and reconciliation and compare them to the monthly records.

Implementation Date:

February 19, 2013

Person Responsible for Implementation:

Board

Audit Recommendations:

The Board should audit or cause to be audited, the financial records and reports of the Clerk-Treasurer on an annual basis.

Implementation Plan of Action

A Board member will be assigned yearly to audit the financial records and reports of the Clerk-Treasurer

Implementation Date:

February 19, 2013

Person Responsible for Implementation:

Board

Audit Recommendations:

The Board should ensure that the Clerk-Treasurer reconciles all the bank accounts monthly

Implementation Plan of Action

Since the initial risk assessment audit in July 2013, the Clerk-Treasurer has reconciled the bank accounts, and the Board will continue to audit that this is done.

Implementation Date:

July 2013

Person Responsible for Implementation:

Board

Audit Recommendations:

The board should certify the payroll before the checks are processed.

Implementation Plan of Action

A payroll sheet has been created for the Mayor to sign certifying the payroll on a monthly basis.

Implementation Date:

February 19, 2012

Person Responsible for Implementation:

Mayor

In conclusion, we appreciate the time and effort of your staff, and welcomed the opportunity to correct the recommendations offered by your auditors. The Board would also like to commend your staff who were always professional and courteous.

Very truly yours,

Thomas Corless, Mayor

2/21/13
Date

APPENDIX B

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 goal, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed Village officials, performed limited tests of transactions, and reviewed pertinent functions such as cash receipts and disbursements, purchasing, claims processing, and payroll.

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 upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial operations for further review. To achieve our audit objective and obtain valid audit evidence, we performed the following procedures:

We interviewed Village officials and reviewed records and documents to determine whether adequate records were available, and where and how the records were maintained; whether the Clerk-Treasurer provided monthly financial reports to the Board; and whether the Board audited the Clerk-Treasurer's records and reports annually.

We traced all check disbursements that cleared the bank for the period June 1, 2011 through August 31, 2012 to Board-authorized payrolls for each employee.

We traced all disbursements for December 2011 and January 2012 to the warrant and the vouchers and supporting documentation to ensure they were made for proper Village expenses.

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

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