



Village of Spencer

Financial Condition

Report of Examination

Period Covered:

June 1, 2011 — February 4, 2013

2013M-119



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 Spencer, entitled Financial Condition. 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 Spencer (Village) is located in Tioga County and has approximately 800 residents. The Village offers a variety of services to its residents, including general governmental support, police and fire protection, street lighting, and recreational services. The Village's 2012-13 budgeted appropriations were \$320,376, funded primarily with real property taxes, sales tax revenue, State aid, and contractual revenue from intergovernmental services.

The Village is governed by an elected five-member Board of Trustees (Board), which is comprised of the Mayor and four Trustees. The Board is responsible for the general management and control of the Village's financial affairs. The Mayor is the Village's chief executive officer and appoints all non-elected officers, subject to Board approval, including the individual who serves as both Clerk and Treasurer. The Clerk-Treasurer is the chief fiscal officer and is responsible for the accounting records and reports, including filing the Village's annual update document (AUD) with the Office of the State Comptroller (OSC). Also, the Deputy Clerk-Treasurer (Deputy) assists the Clerk-Treasurer if there are specific questions and to cover vacations. The current Clerk-Treasurer was appointed in November 2012, and the previous Clerk-Treasurer was appointed to the Deputy position. The Clerk-Treasurer maintains the accounting records in manual form, as the Deputy had done previously. There are nine Village bank accounts, including one certificate of deposit (CD).

Objective

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

- Did the Board ensure that the Clerk-Treasurer properly reported the Village's financial condition?

Scope and Methodology

We interviewed appropriate Village officials, examined financial records and reviewed procedures of the Village for the period June 1, 2011, to February 4, 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 is included in Appendix C 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. Except as

indicated in Appendix A, Village officials generally agreed with our recommendations and indicated they have begun to take corrective action. Appendix B contains our comment on the issue 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 Village Clerk's office.

Financial Condition

An essential component of the Board's duties is to make sound financial decisions that are in the best interest of the Village and the taxpayers that fund its operations. The Clerk-Treasurer is responsible for accurately accounting for and reporting the details of all revenues, expenditures, and related fund balance. Also, reports to external agencies, such as the Internal Revenue Service (IRS), should reflect actual activities. It is also important that the Clerk-Treasurer perform monthly reconciliations of bank statement balances and the cash balances per the accounting records. Any differences must be promptly documented and resolved. Additionally, the Board must audit, or cause to be audited, by an officer or employee of the Village or by a public accountant engaged for that purpose, the Clerk-Treasurer's annual financial report and supporting records.

The Board did not ensure that the Clerk-Treasurer, or previously the Deputy in her capacity as Clerk-Treasurer, properly reported the Village's financial condition. We found errors in almost every aspect of the accounting function from the accounting records to the financial reports and in the reports to the IRS. The Clerk-Treasurer submitted an annual financial report (annual update document) with less cash reported than the actual balance available. Available fund balance was also significantly underreported and several expenditure lines were reported inaccurately. Moreover, the interim reports that the Clerk-Treasurer provided to the Board were incomplete and did not include sufficient information to enable the Board to monitor the Village's financial activities against the adopted budgets. These errors occurred because the Clerk-Treasurer made numerous erroneous entries into the accounting records that were not detected because she did not perform standard accounting procedures designed to detect errors such as the ones she made. Further, the Board did not audit the Clerk-Treasurer's records at any time. Had they audited the records, they would have realized these errors.

Annual Financial Reports — The reported cash amounts for the 2011-12 fiscal year were \$18,931 less than the actual cash balances in the bank. General fund balance was under-reported by about \$19,000. Additionally, the AUD reported \$395,697 of restricted fund balance

and \$0 in unexpended surplus funds.¹ However, we calculated restricted fund balance to be only \$81,829, while \$332,699 was unexpended surplus funds. Further, the last five AUDs contained prior period adjustments to the fund balance totaling over \$131,000, which netted to increase fund balance by \$115,000. The Deputy, however, could not provide support or reasons for these adjustments. One expenditure account was reported on the AUD about \$80,000 more than was recorded in the accounting records. Additionally, cash was not reported on the AUD in such a manner to easily determine which money was readily available for use and not restricted in a CD.

Other Financial Reports — The Clerk-Treasurer does not prepare abstracts of disbursement activities for non-operating bank accounts for the Board’s audit and approval. The Clerk-Treasurer does not provide monthly reports to the Board that would reflect revenues received. The monthly reports only provided an abstract of disbursement activity for the operating funds’ checking accounts. These monthly reports did not contain any comparison of actual results to the adopted budgets. The Deputy did prepare such a report in February 2012 when the Board was developing the ensuing year’s budget. However, the revenue amounts reported were only through December 31, 2011, while the expenditure amounts were through February 28, 2012. There were also errors in reporting to the IRS. The Deputy under reported \$5,000 in wages paid on the Village’s quarterly report which resulted in an underpayment of \$657 in payroll taxes.

Accounting Records — Currently, since the Clerk-Treasurer does not prepare an abstract for all disbursements, non-operating disbursements are not reflected in the recorded fund balance. Over the four months sampled, these disbursements totaled over \$110,000. Also, the Deputy did not maintain a control account to properly record and account for real property taxes and, therefore, was unaware that one unpaid tax bill was not re-levied during the 2012-13 tax year. Moreover, no one reconciled the amount of cash recorded in the accounting records with the amounts reported in the Village’s bank accounts. We attempted to reconcile the balances as of January 31, 2013, for the operating funds’ checking account. We were able to determine that the balance per the bank was greater than the accounting records by more than \$20,000.

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term ‘unexpended surplus funds’ to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year’s budget (after Statement 54).

These errors occurred without detection because the Clerk-Treasurer performs all of the financial duties without any oversight. Additionally, the Deputy indicated that she never received formal training in her required duties. The minimal amount of Board oversight in approving vouchers for disbursements from the operating checking account failed to identify that accounting records were not complete and accurate and that the reports that were presented did not correspond with the accounting records. Board members told us that they did not recognize their responsibility to request and review formal bank reconciliations, nor did they request any financial reports, as they did not know what reports to ask for. They also believed it would take too long for the Clerk-Treasurer to prepare reports from manual accounting records.

Without accurate and complete accounting records and financial reports, Village officials cannot be sure of the actual financial condition of the Village. This, as a result, has led to a Board misconception of the Village's financial position. Additionally, since the Board has prepared budgets based on inaccurate financial reports, it has not been able to prepare realistic budgets. We found that revenues are consistently underestimated by as much as \$87,000 and costs are generally overestimated. Moreover, any subsequent financial decisions made by the Board are not based on sound information. Over the last seven years, the Village has accrued a significant amount of unexpended surplus funds. The general fund balance at the 2012 fiscal year end totals 96 percent of budgeted 2012-13 appropriations and more than 3.5 times the 2012 real property tax levy.

Recommendations

1. The Clerk-Treasurer should prepare complete and accurate financial records and reports, including monthly reconciliations of the book balance to the adjusted bank balance, and report monthly budget-to actual comparisons and cash balances.
2. The Board should provide adequate oversight of financial activities, especially when one person performs all aspects of the financial duties. This includes, at a minimum, an annual audit.
3. The Board should develop a plan to reduce the unexpended surplus fund balance. If the Board believes it is necessary to accumulate money for a future planned purpose, it should consider formally establishing authorized reserves as provided for in statute. The Board may also choose to use the excess fund balance to pay one-time expenses, such as capital projects, or to reduce future tax levies.
4. Village Officials should consider attending local government training on fiscal oversight and accounting.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Village of Spencer
PO Box 346
Spencer, NY 14883

Office of the State Controller
Division of Local Government
RE: Village of Spencer Financial Condition 2013M-119

August 22, 2013

The Village of Spencer received the NY State Comptroller's (OSC) audit report covering the period of June 01, 2011 through February 4th, 2013. The Village Trustees have reviewed the draft and the Clerk and Mayor met with the audit team late on July 18th. The Village Board appreciates the time and effort the audit team put into the audit document and the professional way the audit team conducted itself. Significant time had passed since the last State audit of the Village and considering numerous Trustees, the Clerk and the Mayor are new to their positions, the audit was very timely!

Overall, the Village Board acknowledges and generally agrees with the audit findings. The one exception in the report we do disagree with is the statement: "...there was underpayment of tax roll in the amount of \$657...". In truth, the tax was paid, however it was a late payment. It is also important to note, the Village had more cash in the financial accounts than reported and no malicious or fraudulent activity was found.

See
Note 1
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As a result of the audit experience and our true desire to improve as a Village Board, the Village has already begun to take actions which will address the findings in the audit report and improve procedures within the local government. The Corrective Action Plan outlined in subsequent pages in this communication which addresses each of the OSC findings. Once again, we would like to thank the audit team for their detail audit report and restate the audit was a positive experience.

Very truly yours,
Christine Lester

Mayor
Village of Spencer

APPENDIX B

OSC COMMENT ON THE VILLAGE'S RESPONSE

Note 1

Our report focused on the inaccuracy of the calculation and subsequent filings with the IRS. Although this miscalculation may have eventually been identified and/or corrected, the incorrectly reported figures demonstrate a trend of inaccuracies in Village financial records and reports. Cumulatively, these inaccuracies have the potential to materially misrepresent the Village's financial standing and may have negative impacts on the financial decisions made by the Board when those decisions are based on such reports.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Village officials, tested selected records, and examined pertinent documents for the period June 1, 2011, through February 4, 2013.

Our examination included the following:

- For the audit period, we identified any check or voucher sequence gaps from the voucher abstracts and traced unlisted checks to either the bank statement or the voided checks. These steps were to determine if all expenditures were reviewed and approved by the Board to be proper town expenditures.
- We examined all bank statements for all accounts for the audit period and traced any cash withdrawals or electronic transfers to the accounting records and voucher, to determine if they were authorized and supported.
- For the audit period, excluding January 2013, we examined bank statement check images and verified that all checks had two signatures, and considered handwriting consistency. We traced checks not meeting that criteria back to the approved abstracts and vouchers to ensure the expenditures were approved and supported.
- We obtained from Tioga County the 2011-12 and 2012-13 real property tax levy amounts and relevy amounts, and verified that the levy amounts provided to the County matched the levy amounts from the Board-approved budgets. We also compared the estimated real property tax receipts amounts as calculated by OSC to the Clerk-Treasurer's reported amounts per the cash receipts ledger and AUDs. We verified that all unpaid tax bills per the list were properly relieved, and that the Clerk-Treasurer's unpaid real property taxes list was complete.
- We selected the first two real property tax bills stamped paid for each month of the Village's 2011-12 and 2012-13 tax collection periods, along with bills for properties owned by Village officials, and calculated applicable fees and penalties and traced the payments to the Clerk-Treasurer's receipt log. We traced the daily total receipts in the log from the days that the payments were made to the deposit slips and bank statements. These tests were to determine if moneys collected were recorded, and deposited timely and intact.
- We obtained the Clerk-Treasurer's budget to actual report for the 2011-12 fiscal period and compared amounts reported to the accounting records and adopted budget, to verify the accuracy of the reported figures.
- For July 2011, July 2012, and January 2013, we verified that payroll deductions were appropriately withheld and disbursed. We recalculated appropriate deduction amounts based on the rates and voluntary deduction amounts, and compared those to the amounts paid to the respective vendors per the canceled check images. Also, we compared the amounts paid to the amounts reported for the State and Federal withholdings.

- We verified that pay and deduction amounts from the W-2s matched the corresponding amounts in the Clerk-Treasurer's payroll journal for three officials and two summer employees.
- We selected five revenue and five disbursement accounts from the AUD data, and traced to the sum of the activity recorded in those accounts per the cash receipts and cash disbursements journals, to determine if the amounts reported were accurate.
- We compared the AUD reported revenues and expenditures to the corresponding budgeted amounts, identified trends in budgeting accuracy, and followed up on significant differences.
- We calculated the fund balance for the 2011-12 fiscal year, using bank statement activity, and compared this amount to the AUD reported fund balance and discussed variances with Village officials to determine the Village's correct fund balance. We compared the calculated bank statement fund balance to the 2012-13 budgeted appropriations to determine what percentage of the appropriations the fund balance is in order to determine how healthy the fund balance is.
- We examined the Board minutes and our permanent file to determine if reserve funds have been formally established, and if the Board approved money to be set aside in them.
- We identified all adjustments to fund balance reported AUD data for the previous five fiscal years and inquired of Village officials as to the cause for the adjustments.
- For January 2013, we completed a bank reconciliation on all accounts by tracing the ending balance from the applicable bank statement to the ending book balances in the accounting records. We then determined if the difference equaled the outstanding checks or deposits in transit. We compared the reconciled amounts to the reported cash balances per the AUD. We also documented the May 31, 2012, cash balances per all bank account statements and we completed bank reconciliations.
- We obtained the 2012 listing of permits issued from the Building Inspector during the audit period and calculated the appropriate value of the associated permit application fees. We determined the proper amounts that should have been charged for the vendor licenses. We also obtained a listing of payments the Village received from OSC, along with the Town and County payments. We traced these amounts to the cash receipts journal and to the deposits on the bank statements to verify appropriate deposits were made timely and intact and that the transactions were recorded in accounting records.
- We compared a listing of accounts received from the bank to the listing of cash accounts in the accounting records.
- We verified that the Clerk-Treasurer, Deputy, and Mayor were compensated appropriately, by reviewing the Clerk-Treasurer's deduction log and calculating what the appropriate net pay amounts should be for one payroll in each fiscal year, and tracing to the canceled checks per the bank statements. Also, we identified any additional checks issued to these officials by reviewing the bank statement check images. When additional checks were identified, we traced the checks to approved vouchers to verify the disbursements were supported and approved.

- We inquired of Village Officials as to the budget development and monitoring process (including transfers) and determined if a five year plan is in place. We also inquired how budgeted revenues and expenditure amounts are determined. We reviewed the Board minutes to verify if there were any discussions of reports or if budget transfers or budget monitoring was noted.
- We calculated, using the reported 2011-12 AUD data, the results of operations for the 2011-12 fiscal year and compared to previous years to identify trends in results of operations.

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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