



# Village of Sylvan Beach

## Board Oversight

### Report of Examination

Period Covered:

June 1, 2011 — July 31, 2012

2013M-34



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 Village of Sylvan Beach, entitled Board Oversight. 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 Sylvan Beach (Village) is located in the Town of Vienna in Oneida County and has approximately 900 residents. The Village is governed by an elected Board of Trustees (Board) which comprises a Mayor and four Trustees, all of whom are elected for two-year terms.

The Board is responsible for the general oversight of the Village's operations. The Mayor is the chief executive officer and appoints the Clerk-Treasurer who is the chief fiscal officer. As the chief fiscal officer, the Clerk-Treasurer is responsible for maintaining custody of Village moneys, maintaining appropriate accounting records, and preparing monthly and annual financial reports. The deputy clerk is appointed annually by the Board and is responsible for preparing claims packets and printing abstracts, paid voucher detail reports, and checks for the Clerk-Treasurer's signature. The Board also appoints the Village Administrator who implements policies and procedures as established by the Board, attends Board meetings, and reports to the Board on the status of various government operations. In addition, the Village Administrator also is the Village's Superintendent of the Department of Public Works.

The Village provides a variety of services to the community, including street maintenance, parks and recreation, and water and sewer treatment services. The Village's budget for the 2012-13 fiscal year was \$798,605 for the general fund, \$193,630 for parks and recreation programs, \$143,275 for the water fund, and \$367,682 for the sewer fund. Village expenditures are funded primarily with revenues from real property taxes, sales taxes, user charges, and State aid.

## Objective

The objective of our audit was to review the Village's processes for auditing claims and its annual audit. Our audit addressed the following related question:

- Did the Board fulfill its oversight responsibilities by conducting an effective audit of non-payroll claims and performing an annual audit of the Clerk-Treasurer's records?

## Scope and Methodology

We examined the Board's oversight procedures relating to auditing claims and its annual audit for the period June 1, 2011, to July 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 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. Village officials generally agreed with our recommendations and indicated they planned to initiate correction action. Appendix B includes our comment on an 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 Village Board to make this plan available for public review in the Clerk-Treasurer's office.

## Board Oversight

One of the most significant oversight responsibilities of the governing board is its requirement to conduct audits. The audit process, whether it is the audit of claims or the annual audit of accounting records and reports, is an integral part of the Village's system of checks and balances. An integral part of an effective control system is for Board members to receive the claims for audit and to conduct a deliberate and thorough audit of claims before the disbursement of Village moneys and to conduct a proper annual audit of the Clerk-Treasurer's annual financial report and supporting records. An audit can help determine whether public moneys are being spent and handled properly, identify conditions in need of improvement, and can provide oversight and review of Village financial operations.

The Board did not fulfill its fiscal oversight responsibilities because it did not audit each claim listed on the abstracts. It also did not annually audit, or cause to be audited, the financial records of the Clerk-Treasurer. As a result, the Board does not have adequate assurance that all payments are for valid Village purposes, and it has limited ability to identify and correct errors or irregularities.

### Claims Audit

The Board is required by law to audit and approve all claims against the Village before the Clerk-Treasurer pays them. To properly approve claims for payment, the Board must ensure that all claims contain sufficient documentation to determine the nature of the purchase, that the amounts represent actual and necessary Village expenses, and that the purchases comply with statutory requirements and Village policies. An abstract is a list of all claims that are intended to be audited and approved for payment. Abstracts must be certified (signed) and dated before the claims can be paid. Because the clerk and treasurer position is combined in the Village, the Mayor must sign the abstract certifying to the Clerk-Treasurer that the claims have been audited and approved for payment by the Board. Village Law provides limited exceptions for making payments prior to audit for items such as public utility services, postage, and freight.<sup>1</sup> Otherwise, all claims are required to be audited and approved before payment is made. The Village processed claims totaling approximately \$1.6 million during our audit period.

The Board did not effectively audit all claims because it only reviewed abstracts and paid voucher detail reports<sup>2</sup> to authorize claim

<sup>1</sup> These types of claims must be listed on the following month's abstract and audited.

<sup>2</sup> The paid voucher detail report includes a list of all payments, including payments on the already approved abstract disbursed in the prior month and any payments authorized by the Board to be paid in advance of audit. This submission of this report is similar to the abstract, because the Board does not receive the claims or supporting documentation for the payments listed on the paid voucher detail report.

payments. The Board did not audit each related claim listed on the abstract and/or detail report. In addition, the Mayor did not sign the abstracts to certify to the Clerk-Treasurer that the claims had been audited and approved for payment by the Board.

We reviewed 89 check payments totaling \$338,056<sup>3</sup> to determine whether the related 148 claims were for appropriate Village purposes, properly supported, authorized, and paid as authorized and found the following:

- Twenty-seven claims totaling \$18,504 that were listed on paid voucher detail reports were not the type of claims that were allowed by law to be paid before being audited. These claims were primarily for band concert performances, employee reimbursements, advertising, supplies, employee training, and payments to an election custodian<sup>4</sup> and a building cleaner and were for proper Village purposes. However, because these were not claims for public utility services, postage, freight, or express charges, they were not allowed under statute to be paid before audit.
- A \$5,000 claim paid to an association as an annual contribution for advertising resort attractions located in the Village was not supported by a written contract to indicate the goods or services that the Village would receive for its payment. Although villages may authorize the expenditure of moneys for the purpose of advertising their locations as summer or winter resorts, they are prohibited from making gifts or loans to or in aid of private entities.<sup>5</sup> Unless the Village's payment was made pursuant to a contract in exchange for lawful, fair, and adequate consideration, the payment could be considered a gift of public funds.

Each Board member told us that they reviewed the abstracts and paid voucher detail reports and followed up with the Clerk-Treasurer on any questionable claims listed. However, the Board's review and sign-off on the abstracts and paid voucher detail reports without examining the supporting claims and documentation is not an effective claims audit. In addition, two Board members told us they thought the Clerk-Treasurer was auditing the claims because she signs the abstract to certify that the vouchers on the abstract were audited. However, the Clerk-Treasurer does not receive or review the claims and, even if she did, the Board is responsible by law for auditing claims, not the Clerk-Treasurer.

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<sup>3</sup> Refer to Appendix C for more detail regarding our sample selection.

<sup>4</sup> The person who administers the voting machines

<sup>5</sup> New York State Constitution, Article VIII, Section 1



Although we did not find any inappropriate transactions during our examination of these claims, because the Board does not properly audit and approve all claims before payment, it does not have adequate assurance that the purchases were for a valid Village purpose. In addition, when claims are routinely paid without the Board's audit, there is an increased risk of misuse or diversion of Village funds.

In addition, we found that payments totaling \$7,543<sup>6</sup> for dumpster services and holiday lights did not comply with the Village's procurement policy. The policy requires written quotes from three vendors for purchases between \$3,000 and \$10,000. The Village Administrator told us that he purchased holiday lights for the Village park totaling \$3,588 and dumpster services totaling \$3,955 without obtaining three written quotes. The Mayor told us that the purchase of the lights was unplanned and that the Board informally pre-approved the purchase.

The Village also paid \$22,168 for engineering services (\$9,273),<sup>7</sup> legal services (\$7,895), and advertising services (\$5,000)<sup>8</sup> without obtaining competition. The Mayor told us that the Village has a longstanding history of using the same vendor for legal services. He and the Clerk-Treasurer also told us that they deemed it would be more cost effective to use the same advertising agency that the Village has been using – instead of using a competitive process to obtain another advertiser – because the agency already had an existing Village advertisement, and the Village's \$5,000 payment to the agency was intended for expanding the advertising area.

Though the Village's purchasing policy does not require the solicitation of alternative proposals or quotations for the acquisition of professional services, it should provide guidance for procuring professional services in a manner that assures the prudent and economical use of public moneys in the best interests of the taxpayers. The solicitation of competition such as through a request for proposal (RFP) process is an effective means to procure services at the best value and document how the selection was made.

## **Annual Audit**

Village Law requires the Board to annually audit, or have a Village officer, employee, or an independent public accountant audit, the financial records of the Clerk-Treasurer. This annual audit provides an independent verification that transactions have been properly recorded

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<sup>6</sup> Refer to Appendix C for further information on our sample selection.

<sup>7</sup> The Village also paid \$84,649 to this provider during our audit period for engineering services, which were procured with competition.

<sup>8</sup> This \$5,000 payment for advertising services is a separate payment from the \$5,000 "contribution" for advertising services mentioned previously that the Village paid to an association.



and that cash has been properly accounted for. It also provides Board members with assurance that the financial records and reports contain reliable information on which to base financial decisions.

The Board did not perform annual audits of the records and reports of the Clerk-Treasurer. We found no documentation or evidence in the Board minutes that an audit had taken place. Four of the five Board members told us they did not know that an annual audit needed to be completed.<sup>9</sup> However, we reported on this same finding in our last three Village audits.<sup>10</sup>

The Board's failure to perform an annual audit diminishes its ability to monitor the Village's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected.

## Recommendations

1. The Board should conduct a thorough and deliberate audit of claims before authorizing them for payment to determine that they are accurate, supported by proper documentation, and are valid Village expenditures and that they comply with required statutes and Village policies.
2. The Mayor should sign the abstracts to certify to the Clerk-Treasurer that the claims have been audited and approved for payment by the Board.
3. The Clerk-Treasurer should include all claims on the abstract to be audited and approved for payment. Any claims that are allowed by law to be prepaid should be included on the subsequent abstract to be audited by the Board.
4. The Board should ensure that Village officials comply with the Village's purchasing policy by obtaining written quotes when appropriate.
5. The Board should consider amending its procurement policy to require the solicitation of competition when procuring professional services.
6. The Board should annually audit, or cause to be audited, the Clerk-Treasurer's financial records.

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<sup>9</sup> For guidance on conducting annual audits, Board members should refer to the OSC publication entitled, *Local Government Management Guide – Fiscal Oversight Responsibilities of the Governing Board*.

<sup>10</sup> These audits were completed in 1991, 1994, and 1997.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



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April 19, 2013

Office of the State Comptroller  
Division of Local Government and School Accountability  
Rebecca Wilcox, Chief Examiner  
State Office Building  
333 E Washington St., Rm 409  
Syracuse NY 13202-1428

Dear Ms. Wilcox:

Please allow this letter to serve as our official acknowledgement of the receipt and review of the Draft Audit Report for the period covering June 1, 2011 – July 31, 2012 (2013M-034) as prepared by your office. This will also confirm that the Mayor and Board of Trustees agree with the Draft Audit as presented.

The Village Board has reviewed the draft audit and has already begun to put policy and procedures into place to be sure that there is an audit of claims and an annual audit of the financial records of the Clerk-Treasurer. At the organizational meeting a committee was selected for the audit of claims and it was agreed that an annual audit be performed weather it is internal or external is yet to be determined.

See  
Note 1  
Page 11

We will be submitting a proposed Corrective Action Plan (CAP) upon receipt of the Final Audit Plan in accordance to the 90 day requirement to include all policy and procedures that will be implemented to insure the strengthening of our current policy and procedures in these areas.

Sincerely

Gregory R Horan  
Mayor

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## **APPENDIX B**

### **OSC COMMENT ON THE VILLAGE'S RESPONSE**

#### Note 1

An audit committee could be established to pre-audit claims, but the committee has no authorization to actually audit and approve payment of claims. The actual audit and approval or disapproval of claims for payment must be performed by the Board as a whole, acting by majority vote.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to examine Board oversight of the Village's non-payroll claims audit and annual audit process. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed Board minutes and documentation and made inquiries of Village officials and employees to obtain an understanding of their processes regarding the claims audit and annual audit.
- We analyzed the Village's computer processed and manual data for our audit period to verify completeness, consistency, and reliability of the data.
- We used a random number generator to select a sample of 50 check payments (77 claims) totaling \$27,302. We excluded all payments and claims of the East Oneida Lake Water Pollution Abatement Project. This is a joint activity involving the Village and the Towns of Lenox, Sullivan, Verona, and Vienna. Although the Village was designated as administrator and fiscal agent of the joint activity, an audit of the joint activity would be a separate undertaking and would result in a report addressed to all the participating local governments. Therefore, we did not include transactions related to the joint activity within the scope of this audit.
- We selected 39 check payments (71 claims) totaling \$310,754 based on high-risk factors including payments to Village officials and/or employees, unrecognizable vendors and credit card vendors, payments for higher dollar amounts, and payments initiated by department heads. We tested the claims to determine whether they contained approval, sufficient back-up documentation such as invoices and price quotes, and included goods/services that appeared to be legitimate and necessary and in compliance with policies and statutory requirements.
- During our review of the 89 check payments, we reviewed three claims for credit card purchases totaling \$3,941 that included \$3,588 paid for holiday lights. We also reviewed another claim for dumpster services totaling \$702. We reasoned that the \$702 payment did not reflect the only payment for these services during the 2011-12 fiscal year; therefore, we looked for any payments made for dumpster services in the 2011-12 fiscal year and found another \$3,253 in payments for dumpster services. We reviewed these payments to determine whether they complied with the Village's procurement policy.

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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**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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