



Village of Whitney Point Cash Disbursements

Report of Examination

Period Covered:

June 1, 2011 — January 29, 2013

2013M-69



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 of Trustees governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Village of Whitney Point, entitled Cash Disbursements. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the 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 Whitney Point (Village) is located in the Town of Triangle in Broome County. The Village has 964 residents and provides various services, including water distribution, sewage treatment, street maintenance, public safety, a library and general government support. The Village's annual budget for the 2012-13 fiscal year was \$1.22 million, funded primarily from real property taxes, sales tax revenue and water and sewer fees.

The Village is governed by an elected Board of Trustees (Board) comprised of four Trustees and a Mayor. The Board is responsible for the general management and control of the Village's financial affairs, which includes designing and implementing controls to safeguard Village assets.

The Mayor is the chief executive officer and is responsible for the Village's day-to-day management under the direction of the Board. The Mayor appoints the Clerk-Treasurer. The Clerk-Treasurer is the chief fiscal officer and is responsible for, among other things, maintaining a record of disbursements, reconciling cash balances to bank statements, and providing the Board with timely, accurate and complete financial information.

Objective

The objective of our audit was to review the Village's internal controls over cash disbursements. Our audit addressed the following related question:

- Did the Mayor and the Board ensure that disbursements were for proper Village purposes?

Scope and Methodology

We examined the internal controls over the Village's cash disbursements for the period June 1, 2011, through January 29, 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 B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials agreed with our recommendations and indicated they planned to initiate corrective action.

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

Cash Disbursements

The Mayor and Board are primarily responsible for oversight of all of the Village's financial operations. Oversight becomes particularly important in operations where adequate segregation of duties is not possible. To adequately safeguard Village moneys, the Board must establish an internal control system which ensures all disbursements are properly documented, audited and authorized prior to payment. Further, the Board must annually audit the Clerk-Treasurer's records to ensure moneys are properly accounted for and that the accounting records are current and appropriate reconciliations have been completed.

The Mayor and the Board did not conduct a thorough and deliberate audit of the claims presented for payment and, therefore, did not ensure that disbursements were for proper Village purposes. The Board also did not adequately segregate duties of the Clerk-Treasurer or implement sufficient compensating controls. Finally, the Board did not conduct an audit of the Clerk-Treasurer's records for the 2011 fiscal year. As a result, Village funds were at risk of misuse.

Claims Auditing — While the Board approves the abstract (list of claims to be paid), it does not review all the individual claims. In addition, no one verifies that all checks disbursed were approved by the Board because no one compares the Board-approved payments with the canceled check images on-line.

Segregation of Duties — The Clerk/Treasurer is assigned most of the day-to-day financial activities including the responsibility of paying claims submitted by vendors after the Board reviews and approves abstracts. The Clerk/Treasurer performs all aspects of the cash disbursement process including preparing the monthly abstracts, printing and signing checks, and preparing the bank reconciliations. The Treasurer is also responsible for initiating online bank transfers. She performs all of these duties without sufficient oversight.

Annual Audit — The Board engaged an external auditor to audit the Clerk-Treasurer's records for the fiscal year ended May 31, 2012, but did not audit the records for the 2011 fiscal year. The Board engaged the external auditor for 2012 because the amount of Federal grant income received to fund a sewer project required an audit.¹

¹ The standards for Federal grant audits require that the auditor consider the internal control over financial reporting and are not designed to identify all deficiencies in internal control.

We provided Board members with our publication² that includes checklists for performing their own comprehensive audit of the Clerk/Treasurer's records in the event that an independent audit is not done in the future.

As a result of these weaknesses, we performed certain tests³ to ensure that disbursements were properly approved and legitimate Village expenditures. While our testing disclosed only minor discrepancies,⁴ there is still a significant risk that errors and irregularities could occur and not be detected in a timely manner.

Recommendations

1. The Board should perform an audit of all claims presented for payment and verify that all payments are appropriate.
2. The Mayor should segregate the duties of the Clerk-Treasurer or implement compensating controls.
3. The Board should conduct an audit of the Clerk-Treasurer's records each year.

² Our publication entitled *Fiscal Oversight Responsibilities of the Governing Board* is available at our website: http://www.osc.state.ny.us/localgov/pubs/lgmg/fiscal_oversight.pdf

³ See Appendix B – Audit Methodology and Standards

⁴ We discussed these discrepancies with Village officials during our field work.

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

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Binghamton NY 13901-4417

The Village of Whitney Point is in receipt of the OSC's Draft Audit Report covering the period from June 1, 2011 to January 29, 2013. We generally agree with the recommendations of the report which are listed below. The implementation of corrective actions will be discussed when we file the CAP.

1. The Board should perform an audit of all claims presented for payment and verify that all payments are appropriate.
Agreed
2. The Mayor should segregate the duties of the Clerk/Treasurer or implement compensating controls.
Agreed
3. The Board should conduct an annual audit of the Clerk/Treasurer's records.
Agreed

Sincerely,

David Downs, Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We reviewed the Village's internal controls over cash disbursements for the period June 1, 2011, through January 29, 2013. To accomplish our objective and obtain relevant audit evidence we interviewed appropriate Village officials and employees, reviewed the Village's policies, records and reports, examined pertinent documents and performed the following procedures:

- We scanned all cleared check images for signatures created from a signature stamp or from an authorized signer to verify they were appropriate Village disbursements.
- We selected all utility payments for the month of February 2012, and confirmed that the payments were for the Village by reviewing the respective invoice and verifying the Village-related service address. We then compared these payments to the utility expense paid for the remaining audit period for reasonableness.
- We scanned cash disbursement reports for all Village bank accounts for our audit period for payments of personal expenses and to vendors not typical for the Village. We examined the related invoices and claim forms for these disbursements to ensure the expenditure was for proper Village purposes.
- We scanned all of the Village's bank statements for withdrawals and transfers out (non-check disbursements) during August and December 2012 and traced each of these disbursements to deposits or transfers to another Village account or to supporting documentation such as payroll records to verify they were appropriate Village disbursements.
- We obtained a report of all general journal entries recorded in August and December of 2012 to cash accounts from the general ledger software. We reviewed all supporting documentation for the entries to ensure they were appropriate.
- We reviewed the check numbers reported on the approved warrants for the audit period and prepared a list of any checks missing from the check sequence. For any checks that were missing from the sequence that were voided, we traced to the voided check. For any other checks on the list, we confirmed the amount paid by reviewing invoices and other supporting documentation to verify they were appropriate Village disbursements.
- We tested the accuracy of bank reconciliations prepared by the bookkeeper for March and December of 2012 by tracing information reported on the bank reconciliation to supporting documentation such as the accounting records and bank statements and traced reconciling amounts such as deposits-in-transit and outstanding checks to subsequent bank statements.

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 C

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

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