



Village of Brushton

Fiscal Oversight

Report of Examination

Period Covered:

June 1, 2013 — June 30, 2014

2014M-235



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2014

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 Brushton, entitled Fiscal 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 New York State 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 Brushton (Village) is located in the Town of Moira (Town) in Franklin County and has approximately 475 residents. The Village is governed by a Board of Trustees (Board), which comprises two elected Trustees and an elected Mayor. The Board is responsible for the general management and control of Village operations. The Mayor is the Village's chief executive officer and is responsible for, among other duties, appointing the Village Clerk-Treasurer subject to the Board's approval. The Clerk-Treasurer, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Village money, as well as maintaining the accounting records.

The Village provides general government support to its residents and contracts with the Town for street maintenance and recreation activities and with the Brushton Volunteer Fire Department for fire protection services. The Village's 2014-15 fiscal year budget appropriations are \$54,900, funded primarily with real property taxes and State aid.

Objective

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

- Did the Board adequately oversee the Village's financial operations?

Scope and Methodology

We examined the Village's financial records for the period June 1, 2013 through June 30, 2014.

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 B of this report.

Comments of Village 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 New York

State 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.

Fiscal Oversight

The Board is responsible for effective financial planning, as well as overseeing the Village's financial operations. These responsibilities include establishing internal controls over financial operations and periodically reviewing those controls to ensure they are operating effectively. The Clerk-Treasurer is responsible for providing the Board with timely and accurate financial information, which includes monthly bank reconciliations, monthly budget status reports and annual financial reports.

The Mayor and Trustees can use this information for making informed decisions when preparing the annual budget, monitoring the Village's financial operations throughout the year and ensuring compliance with relevant laws and policies. With very few exceptions, Village Law requires the Board to audit and approve all claims before the Clerk-Treasurer can make payment.

The Board did not effectively oversee the Village's financial operations. The Clerk-Treasurer did not perform monthly bank reconciliations or provide the Board with complete and accurate monthly financial reports. In addition, the Clerk-Treasurer has not filed an annual financial report with the Office of the State Comptroller (OSC) since the 2008-09 fiscal year. Further, the Clerk-Treasurer paid all 44 claims totaling \$50,075 during our audit period without prior Board audit and approval. Finally, the Board did not annually audit or cause an audit of the Clerk-Treasurer's records and reports. As a result of these deficiencies, there is an increased risk that inappropriate payments or irregularities could occur and the Board's ability to effectively monitor Village financial operations is diminished.

Monthly Reports

The Board needs complete, accurate and current financial information to effectively monitor the Village's financial operations. The Clerk-Treasurer should provide detailed monthly financial reports to the Board that include cash balances, all money received and disbursed during the month, comparisons of actual revenues and expenditures to amounts estimated in the annual budget (budget status reports) and bank reconciliations accompanied by bank statements. Because the Board is ultimately responsible for the Village's financial operations, it is crucial that the Clerk-Treasurer be required to prepare and present adequate monthly financial reports to the Board.

The Clerk-Treasurer did not provide the Board with adequate monthly financial reports that would enable it to effectively monitor the Village's financial activity nor did the Board request any additional information, such as budget status reports. In addition, the Board did

not receive bank reconciliations because the Clerk-Treasurer did not prepare them for any of the Village's three bank accounts.

We reviewed the Clerk Treasurer's monthly financial reports and found that they contained the general fund checking account's beginning and ending cash balances and the receipts received and disbursements made during the month. However, the monthly financial reports did not include the general fund savings account or the trust and agency fund checking account cash balances. In addition, because the monthly financial reports submitted to the Board were not accompanied by bank reconciliations and bank statements, the Board had no way to verify that the reported cash balances were accurate.

As a result of these deficiencies, we reviewed four monthly financial reports¹ the Clerk-Treasurer provided to the Board during our audit period and found that for each month the ending cash balances were inaccurately reported. Specifically, the reported ending cash balances were overstated by \$967 each month. These inaccuracies were the result of errors² the Clerk-Treasurer made when preparing the October 2013 monthly financial report, which resulted in an incorrect beginning cash balance being carried forward to the subsequent months.

The Board's failure to request, and the Clerk-Treasurer's failure to provide, complete and accurate monthly financial reports hinders its ability to exercise financial oversight and increases the risk that errors or irregularities could occur and remain undetected and uncorrected.

Annual Financial Report

The Clerk-Treasurer is required to prepare and file an annual financial report with OSC within 60 days after the close of the fiscal year.³ While it is the Clerk-Treasurer's responsibility to prepare and file the annual financial report, the Board should have procedures in place to review the report and ensure that the Clerk-Treasurer completes and submits it to OSC by the deadline. The annual financial report is an important fiscal tool that provides the Board and other interested parties with the necessary information to monitor the Village's financial operations.

The Board did not ensure that the Clerk-Treasurer prepared and filed the Village's annual financial report with OSC within the established time frames. We found that the last time an annual financial report was filed with OSC was in November 2013 for the 2008-09 fiscal year, or more than four years late. As a result, the Clerk-Treasurer was

¹ Appendix B contains our sampling methodology.

² The errors were the result of combining a calculation error of \$1,000 less an unidentified variance of \$33.

³ Upon written request, the deadline may be extended for an additional 60 days.

unable to file the annual financial reports with OSC for the 2009-10 through 2012-13 fiscal years.⁴ The Clerk-Treasurer stated that she has not filed the annual financial reports in a timely manner because she was having technical difficulties with the electronic filing software. While the records the Clerk-Treasurer maintained contained sufficient information to file the AUDs, she never contacted OSC for assistance with preparing and filing the annual reports.⁵

The lack of annual financial reports for the last four fiscal years leaves Village officials with no way to provide transparency about the Village's financial position to the Board, the taxpayers, the State or other interested parties. Furthermore, without annual financial reports, the Board's ability to ensure its annual budgets reflect the Village's actual annual financial operations (i.e., revenues and expenditures) is impaired.

Claims Auditing

Effective claims auditing procedures ensure that every claim against the Village is subject to a thorough and deliberate review and contains enough supporting documentation to determine whether it complies with statutory requirements and policies and that the amounts claimed represent actual and necessary Village expenditures. With limited exceptions,⁶ Village Law requires the Board to audit and approve all claims before payment. After the claims have been audited, the Mayor must sign an abstract or list of the audited claims directing the Clerk-Treasurer to pay the Board-authorized amounts.

The Clerk-Treasurer provides the Board with an abstract listing all the claims to be audited, as well as the corresponding claims each month. The Board reviews the abstracts and claims and then signs each claim documenting its audit and approval. In addition, the Board adopts a resolution at their monthly meetings indicating the claims audited and approved for payment.

However, during our audit period the Clerk-Treasurer paid all 44 claims totaling \$50,075 before the Board audited and approved them. Additionally, we determined that 14 claims totaling \$10,279 were for public utility services or postage and could be paid in advance of the

⁴ As of our last day of audit fieldwork in July 2014, the Clerk-Treasurer had not filed the annual financial report for the 2013-14 fiscal year or requested an extension.

⁵ During our audit fieldwork, we provided the Clerk-Treasurer with OSC contact information for technical assistance with filing the late reports.

⁶ In accordance with Village Law, the Board is required to audit and approve all claims before payment unless the Board has established the position of Village auditor. Further, the Board may, by adopting a resolution, authorize payment of certain claims in advance of its audit. Claims that may be paid in advance include claims for public utility services, postage, freight and express charges. Such prepaid claims must still be presented for audit at the next regular Board meeting.

Board's audit if authorized by Board resolution. However, we found no evidence that the Board adopted such a resolution.

Because of this deficiency, we reviewed all these claims to determine if they were supported by adequate documentation and if the purchases were for appropriate Village purposes. Except for some minor exceptions that we discussed with Village officials, these claims were supported by adequate documentation and were for appropriate Village purposes.

Although claims were paid without prior Board audit and approval, we did not find any material discrepancies. However, the Board's failure to audit and approve claims before payment is made increases the risk that improper claims against the Village may be paid without detection.

Annual Audit

Village Law requires the Board to annually audit the Clerk-Treasurer's records and reports, or cause them to be audited by a Village officer, employee or independent public accountant. The purpose of this annual audit is to provide assurance that public money was properly deposited in a timely manner and accurately recorded and accounted for, identify conditions that need improvement and provide oversight of Village financial operations. A thorough annual audit also provides the Board with an added measure of assurance that the financial records and reports contain reliable information on which to base management decisions.

The Board did not audit or cause the Clerk-Treasurer's records and reports to be audited during our audit period. The Mayor stated that this resulted because he was not aware of the statutory requirement for an annual audit.⁷

Had the Board conducted or caused an annual audit of the Clerk-Treasurer's records, some of the deficiencies found during our audit may have been identified and addressed sooner. The lack of 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.

Recommendations

1. The Clerk-Treasurer should prepare and provide the Board with complete and accurate monthly financial reports including all cash balances, a budget status report and bank reconciliations accompanied by the bank statements. The Board should use these

⁷ We informed the Mayor about the audit requirement while conducting our audit fieldwork. We also referred him to our publication entitled *Fiscal Oversight Responsibilities of the Governing Board* available at: http://www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf

monthly reports to monitor and manage the Village's financial operations.

2. The Board should ensure that the Clerk-Treasurer files the Village's annual financial reports with OSC in a timely manner.
3. The Clerk-Treasurer should disburse payments for claims only after the Board's audit and approval.
4. The Board should annually audit or cause an audit of the Clerk-Treasurer's records and reports.

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

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

Village of Brushton
Franklin County
Brushton, New York 12916

October 27, 2014



NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear 

The following is the response to the recent Audit Findings of the Village Brushton for the period covered June 1, 2013 and June 30, 2014.

In response to the Monthly Reports on pages 5 & 6 of the "Draft Report," the Clerk has corrected the Monthly Reports by now including the account balances of all Village bank accounts. The Clerk now makes copies of the bank statements for the Mayor and Trustees for their monthly meetings. The Clerk also includes in the Monthly Reports a bank reconciliation of all bank accounts.

In response to the Annual Financial Report on page 6 of the "Draft Report," the Clerk has completed the AUD for fiscal year 2010 and is in the process of completing the remainder of the outstanding AUD's for 2011, 2012, 2013 and 2014 in a timely manner.

In response to the Claims Auditing on page 7 of the "Draft Report," the Clerk is now presenting all claims to the Board prior to payment of the claims. The Board is now approving the claims by motion in the Board minutes each month and the Clerk then pays those claims after the Board meets.

In response to the Annual Audit on page 7 & 8 of the "Draft Report," the Clerk will now present the Village records to the Board to review at the end of each fiscal year. The Clerk will also bring the Village Records to the monthly meetings for the Board to review periodically.

If there is anything further that needs to be discussed or addressed, please do not hesitate to contact me at 518-529-7188.

Sincerely,

Donald A. Barney, Mayor

Village of Brushton

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 and monitor financial activities. 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.

During the initial assessment, we interviewed Village officials, performed limited tests of transactions and reviewed pertinent documents such as Village policies, 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 professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected fiscal oversight for further audit testing.

To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed Village officials and reviewed various financial records and reports related to the Village's financial activities to gain an understanding of the internal controls over the recording, reconciling and reporting of financial transactions and claims auditing. We then documented the associated effects of any deficiencies found in those controls.
- We assessed the adequacy of the financial reports the Clerk-Treasurer provided to the Board.
- We determined if the Clerk-Treasurer performed monthly bank reconciliations and if the bank reconciliations were presented to the Board.
- We reviewed a random sample of four monthly financial reports that were provided to the Board during our audit period to determine if the ending cash balances reported were accurate. We used a computerized random number generator to select four months during our audit period (October and March in 2013 and May and June in 2014).
- We verified which fiscal year the Clerk-Treasurer last filed an annual financial report with OSC.
- We reviewed all claims paid during our audit period to determine if they were audited by the Board prior to payment, were supported by adequate documentation and were for appropriate Village purposes.
- We interviewed Village officials and reviewed Board minutes to determine if the Board audited or caused an audit of the Clerk-Treasurer's financial records and reports any time during our audit period.

We conducted this performance audit in accordance with 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.

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