



Village of Clifton Springs Board Oversight

Report of Examination

Period Covered:

June 1, 2012 — December 5, 2013

2014M-99



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 the 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 Clifton Springs, 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 Clifton Springs (Village) is located in the Towns of Manchester and Phelps in Ontario County and has approximately 2,100 residents. The Village provides various services to its residents, including water and sewer, police and fire protection, street maintenance, street lighting, snow and brush removal and general government support. Budgeted appropriations for the general, water and sewer funds for the 2013-14 fiscal year were approximately \$2.28 million, which were funded primarily by real property taxes, sales taxes and water and sewer rents.

The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general oversight of the Village's operations and the design and implementation of internal controls to safeguard Village assets from loss or misuse. The Mayor is the Village's chief executive officer. The Mayor appoints all non-elective officers, subject to Board approval, including the Clerk-Treasurer, who serves as the Village's chief fiscal officer. As the chief fiscal officer, the Clerk-Treasurer is responsible for maintaining custody of Village moneys and appropriate accounting records and for preparing monthly and annual financial reports.

Objective

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

- Did the Board provide adequate oversight of financial operations to safeguard Village assets and develop a multiyear financial plan?

Scope and Methodology

We examined the Board's oversight of Village operations for the period June 1, 2012 through December 5, 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 generally agreed with our findings and 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.

Board Oversight

The Board is responsible for the oversight of the Village's financial operations and making sure that policies and procedures are in place to safeguard financial resources. The Board fulfills this responsibility in part by instituting appropriate internal controls over Village operations to ensure that financial transactions are properly authorized, recorded and reported. The Board also is responsible for annually auditing the records and reports of those officers and employees that receive or disburse Village funds. Additionally, it is important that the Board adopt long-term plans that establish the Village's financial objectives and goals, based on reasonable estimates of future revenues, expenditures, reserve and fund balance amounts and capital needs.

The Board has generally adopted adequate policies and procedures, but there are still areas in need of improvement in its oversight of the Village's financial operations. The Board does not complete an adequate, documented annual audit of the Village Justice's and Clerk-Treasurer's records. Additionally, although the Board discusses plans for future equipment purchases regularly, a formal, written long-term financial plan has not been developed. We discussed other minor deficiencies with Village officials during our fieldwork.

Annual Audit

Village Law and the Uniform Justice Court Act require the Board to annually audit, or have a Village officer, employee or an independent public accountant audit, the records and reports maintained by the Village Justice and Clerk-Treasurer. An annual audit serves as an important internal control over cash receipts and disbursements by providing independent verification that transactions have been properly recorded and that cash has been properly accounted for. It also provides Board members with an added measure of assurance that financial records and reports contain reliable information on which to base financial decisions. After completing the audit, the Board should ensure that the completion and results of the audit are included in the minutes of its proceedings. Also, the Board should ensure that documentation is filed with the minutes that provides an explanation of how the audit was performed and the records that the Board reviewed during the audit.

The Board does not complete an adequate, documented annual audit of the records of the Village Justice and Clerk-Treasurer. Although the Justice annually presents his records for review, Village officials could not provide us with any formal documentation to describe what this review entails. In addition, although the Clerk-Treasurer provides the Board with the annual financial report, the Board could

not provide us with any documentation of any additional review of the Village's financial records. The Board's failure to perform an annual audit of the Village Justice's and Clerk-Treasurer's records diminishes its ability to effectively monitor the Village's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected.

Long-Term Planning

An important Board oversight responsibility is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important to develop comprehensive, multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Planning on a multiyear basis allows Village officials to identify revenue and expenditure trends and set long-term priorities and goals. It also allows them to assess the effect and merits of alternative approaches on financial issues, such as accumulating money in reserve funds and the use of fund balance to finance operations. It is essential that any long-term financial plans are monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.¹

The Board did not develop a comprehensive, multiyear financial plan, nor did it have any other mechanism in place to adequately address the Village's long-term financial needs. The Village does have a long-term capital plan in place, primarily with regard to large equipment purchases that will need to be made. In addition, there are no written long-term plans related to budgeting, the use of fund balance or projected future revenues and expenditures for each fund account. The failure to develop a detailed multiyear financial plan inhibits the Village's ability to effectively manage its finances and plan for future needs.

The Board should:

Recommendations

1. Annually audit the records of the Village Justice and Clerk-Treasurer. When the Board undertakes its annual audits, it should use a formal review process, such as described in the audit checklist provided by OSC,² and should maintain documentation of this formal review process on file in the

¹ The OSC website offers resources for developing long-term plans, including a four-year plan template and an online tutorial, at: <http://www.osc.state.ny.us/localgov/myfp/index.htm>. See also the Multiyear Financial Planning section in OSC's publication titled *Local Government Management Guide*, which is available at: <http://www.osc.state.ny.us/localgov/pubs/lgm/multiyear.pdf>.

² These checklists are available in OSC's publication titled *Fiscal Oversight Responsibilities of the Governing Board*, which is available at: http://www.osc.state.ny.us/localgov/pubs/lgm/fiscal_oversight.pdf.

Village Clerk's office as evidence that the audits have been performed and all necessary documents and information have been reviewed.

2. Develop a formal, written long-term financial plan that projects operating needs and financing sources for a three- to five-year period.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



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August 5, 2014

Office of the State Comptroller
Division of Local Government and School Accountability
Edward V. Grant, Jr., Chief Examiner
The Powers Building
16 West Main Street – Suite 522
Rochester, NY 14614

Dear Mr. Grant:

Please accept this letter as our official acknowledgement of the Draft Audit Report for the period June 1, 2012 – December 5, 2013, as prepared by your office. All members of the Village Board have received copies of the draft report.

The Village appreciates that the Office of the State Comptroller took time to come to Clifton Springs and complete an audit. The Village found the audit useful and beneficial.

Prior to receiving the draft audit report, the auditors discussed with the Clerk/Treasurer the recommendation for additional Board oversight. Since that discussion, even prior to the audit report, the Clerk/Treasurer has been supplying the Board with additional reports at each Board meeting. The Board has always received a monthly, year to date report of revenues and expenses for all funds the Village is responsible for. Every department head has also always received this monthly report. The Board now also receives the trial balances for all funds, as well as copies of all bank statements. The Board has also always received the annual financial report, and a year- end statement of all funds, but the Village will now have the Clerk/Treasurer review the Annual Financial Report in greater detail.

In regards to the Village Justice records, the Village intends to discuss the Comptrollers report with the Village Justice and will ask that the Judge submit the court system bank statements (Justice and Acting Justice) to the Village Board on a quarterly basis. The Board will also ask that annually the Judge appear before the Board to review the court systems financial reports and discuss the overall status of the court system in the Village of Clifton Springs.

In regards to the long term financial plan, the Village has had a plan in place for replacement of highway equipment and fire truck purchases. This plan has been in place for approximately 25 years. I understand that a more detailed plan would be beneficial.

The Village will be submitting a proposed Corrective Action Plan upon receipt of the final audit plan in accordance to the 90 day requirement.

Respectfully,

William A. Hunter
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal control practices put in place by officials to safeguard Village assets. 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. Our initial assessment included evaluations of the following areas: Board oversight, financial condition, cash receipts and disbursements, records and reports, purchasing, payroll, billed receivables and information technology.

During the initial assessment, we interviewed Village officials, performed limited tests of transactions and reviewed pertinent documents, including 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 or professional misconduct. We then decided on the reported objective and scope by selecting those areas most at risk. We selected Board oversight of financial operations and long-term planning for further audit testing.

The objective of our audit was to assess the Board's oversight of the Village's financial operations. To achieve our objectives and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed appropriate Village officials regarding the Village's practices related to financial operations and oversight, fund balance, reserves and long-term planning.
- We reviewed pertinent documents, such as Village policies, Board minutes and financial records and reports.
- We reviewed monthly reports provided to the Board, which included monthly revenues and expenditures and budget-to-actual reports, for the general, water and sewer funds.
- We randomly selected the month of May 2013 to review a sample of claims. From this month, we randomly selected one abstract and reviewed all 72 claims on the abstract, totaling \$159,696. We reviewed claims for proper authorization, approval and supporting documentation. We then traced the corresponding cash disbursements for each claim to the bank statement to verify amount and payee.
- We randomly selected up to five each of assets, liabilities, revenues and expenditures from the general, water and sewer funds for comparison of accounting records to the annual update document (AUD). We recorded what had been reported on the AUD for the fiscal year ending May 31, 2013 for all line items selected and then compared these figures with the year-end budget-to-actual reports and trial balances to identify any differences.
- We selected deposits made to the Village's general checking, general savings, water savings and sewer savings accounts for review because these accounts have the greatest deposit activity. We used random judgmental sampling to select two months for review from our audit period, which would include both tax receipts and deposits with penalties and interest and water and sewer receipts from billing collections. After considering both criteria, this left us with the

months of July through November of 2012 and 2013, of which we randomly selected July 2013 and August 2013. We recorded all deposits made to the selected accounts in these months, totaling \$649,485, and then determined the composition of deposits based on a review of the deposit slips. We then verified that the amounts of the deposits were the same as the amounts recorded in the cash receipts journal.

- We obtained and analyzed computerized data for the audit period using audit command language software to identify and review unusual transactions.

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

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