



# Village of Red Creek

## Board Oversight of the Clerk-Treasurer and Water Operations

### Report of Examination

Period Covered:

June 1, 2012 — February 11, 2014

2014M-173



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**

October 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 Red Creek, entitled Board Oversight of the Clerk-Treasurer and Water Operations. 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*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Village of Red Creek (Village) is located in the Town of Wolcott in Wayne County and has approximately 500 residents. The Village provides various services to its residents, including water and sewer, fire protection, street maintenance, snow and brush removal, and general government support. Budgeted appropriations for the general, water and sewer funds for fiscal year 2013-14 are approximately \$453,000, funded primarily by real property taxes and water/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 chief executive officer. The Mayor appoints all non-elective officers, subject to Board approval, including the Clerk-Treasurer, who serves as chief fiscal officer. As the chief fiscal officer, the Clerk-Treasurer is responsible for the custody of Village moneys, maintaining appropriate accounting records and preparing monthly and annual financial reports. Although the Board is primarily responsible for the effectiveness and proper functioning of the Village's internal controls, the Mayor and Clerk-Treasurer also share the responsibility for ensuring that internal controls are adequate and working properly.

The Village produces its own water and provides service to approximately 290 residential and commercial customers, of which approximately 230 are located within the Village and 60 are related to properties outside the Village limits. Customers are charged for actual water use based on a Board-established fee and quarterly readings by Village employees. The Village reported revenues from water rents totaling approximately \$65,000 in 2013. The Water/Streets Superintendent (Superintendent) is responsible for overseeing daily water operations.

#### **Scope and Objective**

The objective of our audit was to review the Board's oversight of the Clerk-Treasurer and established internal controls over water operations for the period June 1, 2012 through February 11, 2014. Our audit addressed the following related questions:

- Did the Board provide appropriate oversight of the Clerk-Treasurer?
- Does the Village properly account for water, and have policies and procedures been established to enforce unpaid water bills?

## **Audit Results**

The Board is not properly overseeing the Village's financial operations. The Board did not segregate the Clerk-Treasurer's duties or institute sufficient compensating controls where necessary. The Board did not audit all claims and ensure that all payments were supported by adequate documentation. The Board also did not require the Clerk-Treasurer to provide adequate monthly financial reports to properly monitor the Village's fiscal condition. In addition, the Board did not perform an annual audit of the Clerk-Treasurer's records. Although we did not find exceptions with our testing of the Clerk-Treasurer's records, because the Board does not provide sufficient oversight there is an increased risk that fraud or misappropriation could occur and not be detected or corrected.

Village officials do not have written procedures for reconciling the water produced by the Village's water system with the water billed to the Village's customers. For the 2013 calendar year, the Village could not account for 48.79 million gallons (75 percent) of the water produced. We estimate that if the unaccounted-for water was due to malfunctioning meters, the Village could have realized an additional \$100,026 in revenue without raising rates. Conversely, if the unaccounted-for water was due to leaks rather than malfunctioning meters, the Village incurred \$43,944 in excess costs to produce the unaccounted-for water.

The Village appropriately enforces unpaid water rents for Village residents through re-levy on property tax bills. However, the Village has no policies or procedures in place for enforcing unpaid water rents for outside-Village customers, whose billings account for a significant portion of water revenues. Of the \$65,000 in annual water charges, approximately \$31,900 (40 percent) was attributed to outside-Village water customers. As of December 31, 2013, delinquent water accounts totaled approximately \$6,900, of which approximately \$2,400 (35 percent) were in relation to outside-Village customers. The Village does not have written agreements with outside-Village customers or any other specific plans for recourse in the event that water bills are not paid. When Village officials do not ensure that water is properly accounted and paid for, they risk putting the financial health of the Village's water fund in jeopardy.

## **Comments of Local Officials**

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 recommendations and indicated they plan to initiate corrective action.

# Introduction

## Background

The Village of Red Creek (Village) is located in the Town of Wolcott in Wayne County and has approximately 500 residents. The Village provides various services to its residents, including water and sewer, fire protection, street maintenance, snow and brush removal, and general government support. Budgeted appropriations for the general, water, and sewer funds in fiscal year 2013-14 are approximately \$453,000, funded primarily by real property taxes and water/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 chief executive officer. The Mayor appoints all non-elective officers, subject to Board approval, including the Clerk-Treasurer, who serves as chief fiscal officer. As the chief fiscal officer, the Clerk-Treasurer is responsible for the custody of Village moneys, maintaining appropriate accounting records and preparing monthly and annual financial reports. Although the Board is primarily responsible for the effectiveness and proper functioning of the Village's internal controls, the Mayor and Clerk-Treasurer also share the responsibility for ensuring that internal controls are adequate and working properly.

The Village produces its own water and provides service to approximately 290 residential and commercial customers, of which approximately 230 are located within the Village and 60 are related to properties outside the Village limits. Customers are charged for actual water use based on a Board-established fee and quarterly readings by Village employees. The Village reported revenues from water rents totaling approximately \$65,000 in 2013. The Water/Streets Superintendent (Superintendent) is responsible for overseeing daily water operations.

## Objective

The objective of our audit was to review the Board's oversight of the Clerk-Treasurer and established internal controls over water operations. Our audit addressed the following related questions:

- Did the Board provide appropriate oversight of the Clerk-Treasurer?
- Does the Village properly account for water, and have policies and procedures been established to enforce unpaid water bills?

**Scope and  
Methodology**

We examined the Village's internal controls over the Clerk-Treasurer's records and reports and water operations for the period June 1, 2012 through February 11, 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 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 recommendations and indicated they plan 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.



## Board Oversight of the Clerk-Treasurer

The Board is responsible for the oversight of the Village's financial operations and ensuring that policies and procedures are in place to safeguard Village resources. The Board fulfills this responsibility, in part, by instituting appropriate internal controls to provide reasonable assurance that cash and other resources are properly safeguarded, transactions are properly authorized and recorded, and financial records and reports are accurate, timely and reliable. The Board must also ensure that proper segregation of duties exists, and no individual controls all aspects of financial transactions. When sufficient segregation of duties is not possible, the Board should provide sufficient oversight by implementing compensating controls such as regularly reviewing bank statements, canceled checks, cash receipts records and reconciliations, and comparing them to the Clerk-Treasurer's monthly records and reports. According to New York State Village Law, the Board is also responsible for annually auditing the Clerk-Treasurer's books and records.

The Board is not properly overseeing the Village's financial operations. The Board did not segregate the Clerk-Treasurer's duties or institute sufficient compensating controls where necessary. The Board did not audit all claims and ensure that all payments were supported by adequate documentation. The Board also did not require the Clerk-Treasurer to provide adequate monthly financial reports to properly monitor the Village's fiscal condition. In addition, the Board did not perform an annual audit of the Clerk-Treasurer's records. Although we did not find exceptions with our testing of the Clerk-Treasurer's records, because the Board does not provide sufficient oversight there is an increased risk that fraud or misappropriation could occur and not be detected or corrected.

### Board Oversight

To safeguard Village funds, it is important that one person does not have the ability to authorize, execute and record a transaction or control the entire cash receipt and disbursement function. Proper segregation of duties aids in the prevention and detection of errors and fraudulent activity in a timely manner. When sufficient segregation of duties is not possible due to limited staff, it is imperative that the Board provide sufficient oversight by implementing compensating controls. For example, the Mayor could provide additional oversight by signing checks and reviewing bank reconciliations prepared by the Clerk-Treasurer.

Duties in the Clerk-Treasurer's office are not appropriately segregated. The Clerk-Treasurer performs all functions related to



receipts, disbursements and billed receivables, and maintains payroll records, without adequate mitigating controls or oversight. No one sufficiently reviews her work for accuracy.

Because of these deficiencies, we reviewed a sample of cash receipts and deposits totaling \$32,398, and tax and water/sewer bills totaling \$5,759 to ensure customers were billed appropriately, and all moneys collected for payment were properly deposited and recorded. We also reviewed all adjustments made to water/sewer bills during the audit period for appropriateness. Additionally, we reviewed a sample of payroll records to ensure leave accruals and usages were recorded properly.<sup>1</sup> Although our reviews did not identify any significant financial discrepancies,<sup>2</sup> without adequate independent review and oversight, the Board has no assurance that the Clerk-Treasurer is performing duties properly and accurately maintaining records. Unless the Board improves its oversight of the Clerk-Treasurer's work, the risk remains that moneys could be received and not deposited and that unauthorized checks or bank transfers could be made without detection.

## **Claims Audit**

The Board is required by law to audit and approve all claims against the Village before the Clerk-Treasurer pays them.<sup>3</sup> To properly approve claims for payment, the Board must ensure that all claims contain sufficient documentation to determine the nature of the purchase, the amounts represent actual and necessary Village expenses, and 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 Village's Clerk and Treasurer positions are combined, the Mayor must sign the abstract certifying to the Clerk-Treasurer that the claims have been audited and approved for payment by the Board.

The Board does not review individual claims each month and instead reviews the monthly abstract of claims, which the Mayor and Trustees will sign. The claims abstract does not include supporting documentation, such as invoice or receipt, to verify that purchases were for legitimate Village purposes. Because of this deficiency, we reviewed a sample of 63 claims and cash disbursements totaling \$22,589 for appropriateness and proper recording in the accounting records.<sup>4</sup> Although we did not identify any inappropriate transactions,

<sup>1</sup> See Appendix B, Audit Methodology and Standards, for further details on records reviewed and testing performed.

<sup>2</sup> See section titled "Claims Audit" for other discrepancies identified.

<sup>3</sup> Village Law provides limited exceptions for making payments prior to audit for items such as public utility services, postage and freight. These types of claims must be listed on the following month's abstract and audited.

<sup>4</sup> See Appendix B, Audit Methodology and Standards, for further details on records reviewed and testing performed.

the Board's failure to properly audit and approve all claims before payment does not provide 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.

## **Budget Monitoring**

Accounting records and reports are essential tools that the Board can use to monitor the Village's financial operations. It is important for the accounting records and reports to be complete, accurate and useful. Good management practice requires the Clerk-Treasurer to prepare and provide a monthly financial report to the Board that includes a list of receipts, disbursements and ending balances for the month for each Village bank account, as well as a budget status report of monthly and year-to-date revenues and expenditures compared to budget estimates.

The Board does not receive adequate interim financial reports from the Clerk-Treasurer, including comprehensive budget status reports with month-to-date and year-to-date revenues and expenditures information, and a report of ending balances for the month for each Village bank account. The Board also does not review monthly bank statements, canceled checks or bank reconciliations. The Clerk-Treasurer generates and maintains these reports monthly, but the Board does not request to review them. Because the Board does not receive detailed budget status reports, its approval of monthly budget transfers is based upon recommendations by the Clerk-Treasurer without independent verification by the Board that sufficient funds are available or that the transfer is necessary.

Because the Board does not request interim financial reports, it is unable to provide adequate oversight of the Clerk-Treasurer and Village financial operations, and its ability to oversee the Village's finances is hindered. Additionally, when the Board abdicates its responsibility for maintaining a balanced budget to the Clerk-Treasurer by allowing her to decide which budget transfers are necessary and appropriate, it is relinquishing an important budget oversight responsibility.

## **Annual Audit**

Village Law requires that the Board annually audit, or have a Village officer or employee, or an independent public accountant audit, the records and reports maintained by the Clerk-Treasurer on the Village's behalf. This 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 the financial records and reports contain reliable information on which to base financial decisions.

The Board does not perform, or contract with an independent auditor to perform, an annual audit of the Clerk-Treasurer's records. Although we found that the Clerk-Treasurer is adequately accounting for the Village's funds, without an annual audit the Board's management oversight authority and ability to effectively monitor the Village's financial operations in a timely manner are significantly diminished. This increases the risk that Village funds could be mishandled.

## **Recommendations**

The Board should:

1. Ensure that duties in the Clerk-Treasurer's office are segregated properly, or provide sufficient mitigating controls when segregation of duties is not possible or practical.
2. Conduct a thorough and deliberate audit of claims before authorizing them for payment to determine that they are accurate, supported by proper documentation and valid Village expenditures, and that they comply with required statutes and Village policies.
3. Request monthly reports to use in monitoring the Village's financial condition, including budget to actual status.
4. Audit the Clerk-Treasurer's records and reports annually, or engage the services of an independent public accountant to conduct the audit.

## Water Operations

The Board is responsible for the oversight and effective management of Village water operations, including ensuring water is properly accounted for and unpaid water bills are properly enforced. The Board fulfills this responsibility in part by instituting appropriate internal controls, including the establishment of policies and procedures to ensure water is adequately accounted for and recourse is available for unpaid water bills for customers located inside and outside Village limits.

Village officials do not have written procedures for reconciling the water produced by the Village's water system with the water billed to the Village's customers. For the 2013 calendar year, the Village could not account for 75 percent of the water produced. We estimate that, if the unaccounted-for water was due to malfunctioning meters, the Village could have realized an additional \$100,026 in revenue without raising rates in fiscal year 2013. Conversely, if the unaccounted-for water is due to leaks rather than malfunctioning meters, the Village is incurring excess costs of \$43,944 per year to produce the unaccounted-for water.

Village officials appropriately enforce unpaid water rents for Village residents through re-levy on property tax bills. However, the Village has no policies or procedures in place for enforcing unpaid water rents for outside-Village customers. The Village does not have written agreements with outside-Village customers or any other specific plans for recourse in the event that water bills are not paid. As of December 31, 2013, delinquent water accounts totaled approximately \$6,900, of which approximately \$2,400 (35 percent) were in relation to outside-Village customers. When Village officials do not ensure that water is properly accounted and paid for, they risk putting the financial health of the Village's water fund in jeopardy. Further, they are not ensuring that everything possible is being done to conserve one of our most precious natural resources.

### Water Accountability

Unaccounted-for water is the difference between the amount of water produced and the amount of water billed to customers and other identifiable users for a given period. Village officials should periodically compare water produced with water billed and identify whether the difference is caused by recordkeeping errors, leaks, thefts or malfunctioning meters. The Federal Environmental Protection Agency (EPA) has established an industry goal of 10 percent for unaccounted-for water system losses. Water loss results in a production expenditure for the Village for which no revenue is received. An

effective water accounting system provides for the tracking of use throughout the distribution system and the identification of areas that may need attention. This is a first step in minimizing water losses, reducing system costs and increasing system revenue.

On a daily basis, the Superintendent reads the master water meters, which record all water produced by the Village. However, Village officials do not have written procedures for reconciling the water produced by the Village's water system, as indicated by the master meter readings, with the water billed to the Village's customers. Although the Superintendent prepares monthly water pumping and treatment reports to be submitted to the New York State Department of Health, formal reconciliations comparing the amount of water produced to the total amount metered and the estimated amounts for authorized unbilled uses are not prepared. This type of reconciliation would have allowed Village officials to determine the amount of water loss, compare the rate of loss to industry standards and take steps to correct identified problems.

For the 2013 calendar year, the Village could not account for 75 percent of the water produced. The Village produced 64.75 million gallons of water but billed customers for 15.96<sup>5</sup> million gallons. The majority of the water processed was unaccounted-for, as indicated in Figure 1.

Figure 1: 2013 Unaccounted-For Water		
	Gallons	Percent
Gallons Produced	64,749,000	100%
Gallons Consumed	15,955,873	25%
Gallons Unaccounted-For	48,793,127	75%

Metered water rents are the primary source of revenue for the Village's water fund. When unaccounted-for water is due to inaccurate or malfunctioning meters or theft, the Village loses water rent revenues for the amount of water usage that is not billed. We estimate, using the rates<sup>6</sup> paid by Village customers and the 48.79 million gallons of unaccounted-for water, that if the unaccounted-for water was due to malfunctioning meters, the Village could have realized an additional \$100,026 in revenue without raising rates in calendar year 2013. Conversely, if the unaccounted-for water is due

<sup>5</sup> Includes use tracked for fire hydrant flushing and municipal usage.

<sup>6</sup> The Village charges inside-Village users a base rate of \$25 for the first 6,250 gallons and \$2.05 per 1,000 gallons over the initial 6,250 gallons. Outside-Village users are charged a base rate of \$50 for the first 6,250 gallons and \$2.05 per 1,000 gallons over the initial 6,250 gallons.

to leaks rather than malfunctioning meters, the Village is incurring excess costs for producing water. Based on 48.79 million gallons of unaccounted-for water, and a production cost estimate of \$.92<sup>7</sup> per 1,000 gallons of water, it costs the Village \$43,944 per year to produce the unaccounted-for water.

The Superintendent and Village officials were unable to provide specific reasons for the unaccounted-for water loss, but believe that leaks and malfunctioning meters contribute to a significant portion of the unaccounted-for water. Village officials indicated that the majority of the water lines in the system are original and have not been replaced since the initial infrastructure was installed more than 100 years ago, and leaks may be occurring as a result of those aged lines. This combination of potential causes suggests that the Village may be losing money not only from producing wasted water, but also from missed revenue for water that is actually used but unbilled for because meters are either not functioning properly or have been tampered with.

Without completing an analysis of unaccounted-for water, Village officials cannot accurately determine the extent of potential water loss. This analysis can help Village officials determine the extent to which the Village is incurring costs to produce and treat water that is lost through leaks or consumption that is not being captured and billed.

## **Unpaid Water Bills**

The Board is responsible for ensuring that unpaid water rents are enforced in the manner prescribed by Village Law, which provides that water rents shall be a lien on the real property upon which, or in connection with which, the water was used. It also sets forth a procedure for the enforcement of unpaid water charges. Specifically, the Village Clerk is required to annually file with the Board statements showing the unpaid water charges. The Board shall then include such amounts in the annual tax levy and shall levy the same upon the real property in default. Absent a statutory means to re-levy for unpaid water charges, the Village should enter into written agreements with outside-Village customers for the purchase and sale of water. A written agreement should have clear provisions that address the needs, expectations, roles and responsibilities of the parties, and the pricing, billing and terms of payment. The written agreement could also make provisions for shut off and penalties for late payment and could require the outside users to pay a deposit, make a minimum payment in advance, or pay a reasonable collection charge to cover costs that are collected by means of a civil suit. The agreement should

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<sup>7</sup> Average cost based on total water related costs divided by total gallons produced, with no adjustments for fixed vs. variable costs.



be as specific as necessary to implement the intent of the parties. An agreement that lacks specificity can lead to indecision, disagreements or additional costs that were not expected.

The Village appropriately enforces unpaid water rents for Village residents through re-levy on property tax bills. However, the Village has no policies or procedures in place for enforcing unpaid water rents for outside-Village customers. These billings account for 40 percent of water revenues. The Village does not have written agreements with outside-Village customers or any other specific plans for recourse in the event that water bills are not paid. The Village does not have the authority to re-levy delinquent charges on the property tax bills of outside-Village customers. Instead, the Village would have to go to civil court to collect delinquent payments.

Based on the lack of written agreements with outside-Village water customers, we reviewed water billings to determine current and delinquent charges attributed to inside- versus outside-Village customers. The Village bills approximately \$65,000<sup>8</sup> in current water charges annually. Of these charges, approximately \$31,900<sup>9</sup> were in relation to outside-Village water customers, or 40 percent of total annual water billings. As of December 31, 2013, delinquent water accounts totaled approximately \$6,900, of which approximately \$2,400 (35 percent) were in relation to outside-Village customers.

The absence of written agreements or other sufficient policies and procedures to enforce unpaid water bills for outside-Village water customers could lead to misunderstandings between the Village and the water customers. This could complicate collection efforts and make them more expensive. Additionally, outside-Village water customer billings account for a significant portion of water revenues annually, and failure to collect on this portion of revenues could be detrimental to the water fund.

## Recommendations

Village officials should:

5. Develop procedures for periodically reconciling the amount of water produced with the amount billed. The Superintendent or other designated official should perform a periodic reconciliation and correct causes of significant discrepancies in a timely manner.
6. Determine the causes for and take steps to reduce the amount of unaccounted-for water to improve the efficiency of their water

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<sup>8</sup> Based on the 2013 calendar year billings

<sup>9</sup> Based on outside-Village customers' approximate current water charges totaling \$7,960 for October through December 2013



distribution system, enhance the financial health of the Village's water fund, and preserve water resources.

7. Enter into written agreements for water service with the individual customers located outside the Village.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



Est. 1813

October 1, 2014

Office of the State Comptroller  
Division of Local Government and School Accountability  
Rochester Region  
The Powers Building  
16 W. Main St, Suite 522  
Rochester, NY 14614

Dear State Official:

The Village of Red Creek is in agreement with the findings of the audit team. The Board of Trustees is grateful for any and all suggestions made during the audit process. The board has read the draft report and concurs with the findings.

Because we have many concerns to address, the Village would like to further review the recommendations, and take appropriate corrective measures which will be addressed in the corrective action plan to be completed within 90 days.

Sincerely,

Charles Palermo  
Mayor  
Village of Red Creek

*The Village of Red Creek is an Equal Opportunity Employer*

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## **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. 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 and/or professional misconduct. We then decided upon the reported objective and scope by selecting those areas most at risk. We selected Board oversight of the Clerk-Treasurer, water accountability and enforcement of unpaid water bills for further audit testing.

The objective of our audit was to assess the Board's oversight of the Village's financial operations and evaluate internal controls over select areas of water operations. To achieve our objective 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 of the Clerk-Treasurer, water accountability and enforcement of delinquent water accounts.
- We reviewed pertinent documents, such as Village policies, Board minutes and financial records and reports.
- We randomly selected the month of December 2012 via a random number generator to review a sample of claims. We reviewed all 33 claims paid during this month, totaling \$15,250. We also randomly selected 30 additional claims totaling \$7,337 out of a total of 789 claims totaling \$461,756 via a random number generator to review. 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 fiscal year 2012-13, for all line items selected, and then compared these figures with the May 2013 budget to actual reports and trial balances, to identify any differences.
- We selected deposits made to the Village's general checking and water checking accounts for review because these accounts have the greatest deposit activity. We used judgmental sampling to select two months for review from our audit period which would include both tax receipts/deposits with penalties and interest and water/sewer receipts from billing collections. After

considering both criteria, this left us with the months of July through November 2012 and 2013, of which we randomly selected July and August 2012. We recorded all deposits made to the selected accounts in July and August 2012, totaling \$32,398, and then determined the composition of deposits based on review of deposit slips. We then verified that the amounts of deposits were equivalent to the amounts recorded in the cash receipts journal.

- We selected all general deposits for August 2012 (totaling \$3,564) and a sample of two water deposits from August 2012 (totaling \$2,196) for further review. We reviewed all collections included in these deposits and the associated tax and water/sewer bills. We noted the original bill amount and then calculated penalties based on the Village's approved penalties rates that should have been charged/paid. For all deposits, we determined whether they were made intact based on original method of payment.
- We reviewed adjustments made to water/sewer accounts during the audit period for reasonableness.
- We randomly selected the month of April 2013 to review payroll. We compared payroll report hours to employee timesheet/time card hours to identify any differences; we also noted any leave used. We then compared payroll report weekly salaries paid for each employee and determined if employees were being paid according to Board-approved rates/salaries.
- We randomly selected weekly payrolls for the month of April 2013 to review leave records, which included actual days of March 31 through April 21, 2013. We reviewed employee time records, and compared information for leave used as noted on time records with the master attendance listing maintained by the Clerk-Treasurer to identify any discrepancies. We also determined whether employees were generally accruing leave appropriately.
- We reconciled water produced to water sold over the past year to determine the variance (unaccounted-for water). We reviewed the quarterly water pumping report, based on daily meter reads performed by the Water/Streets Superintendent, and then compared this information to the quarterly readings for gallons sold. We also estimated the cost of water to the Village for each quarter, and compared this to quarterly billings, to determine whether a positive or negative variance existed. Additionally, we estimated the value of the unaccounted-for water, had the water actually been billed for (revenue loss), based on a cost per 1,000 gallons of \$2.05, as well as the cost of lost water due to potential leaks, based on an average cost of \$.92 per 1,000 gallons.
- We summarized water expenditures included on reports provided by the Clerk-Treasurer. The sum of all individual expenditures is the total cost of water to the Village for 2013. We also summarized the individual amounts, based on billing quarters, for use in our reconciliation analysis.
- We reviewed the October through December 2013 quarterly water billings to determine the total amount billed to inside- and outside-Village customers. We then used this information to estimate annual billings for inside- and outside-Village water customers.

- We reviewed the water/sewer arrears account listing as of December 31, 2013, and summarized inside and outside Village water customer arrears as of this date.
- We obtained and analyzed computerized data for the audit period using audit command language software to identify and then 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 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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