

Village of Endicott

Disbursements

NOVEMBER 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Village of Endicott

Audit Objective

Determine whether Village of Endicott (Village) officials ensured that non-payroll disbursements were appropriate, adequately supported and audited.

Key Findings

Village officials did not establish adequate procedures to ensure all disbursements are for appropriate purposes, adequately supported or properly audited.

- Key financial duties were not adequately segregated.
- Bank reconciliations were not performed correctly or in a timely manner.
- Claims were not properly audited.
- Of the \$23.1 million in non-payroll disbursements made during the audit period, we examined disbursements totaling \$287,210 and found they were supported and appropriate.

Key Recommendations

- Segregate financial duties or establish mitigating controls.
- Complete bank reconciliations accurately and in a timely manner.
- Properly audit all claims.

Village officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Village is located in the Town of Union in Broome County and is governed by an elected five-member Board of Trustees (Board), composed of the Mayor and four Board members.

The Board is responsible for the overall management and oversight of Village operations, including the audit of claims.

The Village Manager, who is also the Clerk-Treasurer, is responsible for receiving, disbursing and maintaining custody of Village money.

The Deputy Clerk-Treasurer and the Computer Operator process disbursements, including check printing.

Quick Facts

During Audit Period

Number of Non-Payroll Check Disbursements	5,981
Amount of Claims Paid	\$23.1 million
Amount of Claims Reviewed	\$287,210

Audit Period

June 1, 2019 – February 28, 2021

Non-Payroll Disbursements

How Should a Board Provide Oversight of Disbursements?

A board is responsible for establishing adequate internal controls over disbursements to provide reasonable assurance that transactions are properly authorized and for valid purposes. Proper internal controls should provide adequate segregation of duties so that one individual does not control all phases of a transaction. If limited resources make it difficult to segregate duties, village officials should implement mitigating controls, such as periodically reviewing bank reconciliations.

New York State Village Law Section 5-524 requires a board, or an auditor if the office of auditor was established, to audit all claims (i.e., bills or invoices submitted by vendors requesting payment for goods and services) against a village before authorizing a treasurer to make payment. Every claim against a village should be subject to an independent, thorough and deliberate review to determine whether proposed payments are proper and valid charges. Claims or vouchers that support disbursements should include itemized invoices or receipts with enough detail to determine what was purchased and the price charged. An adequate claims audit can help ensure that public money is being spent and handled properly, identify conditions in need of improvement and provide oversight and review of a village's disbursements process.

Duties Were Not Adequately Segregated and Bank Reconciliations Were Not Performed Correctly or in a Timely Manner

Both the Deputy Clerk-Treasurer and the Computer Operator had the ability to perform all aspects of the disbursements process, including creating, printing and signing checks using the electronic signatures of the Mayor and Village Manager. In addition, both the Deputy Clerk-Treasurer and Computer Operator were responsible for bank reconciliations. However, neither the Mayor nor the Village Manager supervised the application of their electronic signatures, and no one provided additional oversight by reviewing bank reconciliations.

We found bank reconciliations for certain bank accounts were not performed correctly or in a timely manner. For example, the investment accounts were not reconciled to accounting records and the main checking account for Village disbursements had not been reconciled since May 31, 2020.

A board is responsible for establishing adequate internal controls over disbursements to provide reasonable assurance that transactions are properly authorized and for valid purposes.

The Board Did Not Properly Audit Claims

The Board, by resolution, approved total payments by fund each month. However, it did not perform an effective audit of all claims to ensure that transactions were properly authorized and approved or that claims were for proper Village purposes. Instead, the Village Manager and Mayor reviewed the listing of claims and only reviewed detailed invoices of claims if questions arose. In addition, the Deputy Clerk-Treasurer audited credit card invoices to ensure they were supported but told us she did not review all of them.

We examined 100 claims for check disbursements totaling \$249,383 and six credit card payments (representing 179 purchases totaling \$37,827) paid during the audit period. Other than minor discrepancies which we communicated to Village officials, claims contained appropriate support and were for appropriate Village purposes.

Although all the claims we reviewed appeared to be for proper and valid purposes, because Village officials did not adequately segregate duties and perform accurate and timely bank reconciliations, implement mitigating controls or audit all Village claims, there is an increased risk for errors and irregularities to occur.

What Do We Recommend?

The Village Manager should:

1. Segregate key financial duties relating to the disbursement process or implement mitigating controls, including periodically reviewing bank reconciliations.
2. Ensure that bank reconciliations are completed accurately and in a timely manner.

The Board should:

3. Perform a deliberate and thorough audit of all claims.

Appendix A: Response From Village Officials

**Village of Endicott
Office of the Mayor
1009 East Main Street
Endicott, NY 13760**

November 10, 2021

Office of the State Comptroller
Ann C. Singer, Chief Examiner
Binghamton Regional Office
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

RE: Village of Endicott – Disbursements 2021M-124
Audit Response and Corrective Action Plan

The Village of Endicott has received the audit report covering non-payroll Disbursements from The Office of the State Comptroller for the period of June 1, 2019 – February 28, 2021. We have reviewed the findings and have discussed the most effective ways to implement the recommendations included in this report. We appreciate the detailed objective of this audit and found this review to be helpful as we improve our internal controls as identified in the audit recommendations. We have already taken steps to address the findings indicated in the report. This letter will serve as both the audit response and corrective action plan from the Village of Endicott.

The following lists the audit findings and recommendations from the Office of the State Comptroller as well as the response and corrective actions applied by the Village of Endicott.

- 1.) Finding: Financial duties were not adequately segregated.

Recommendation: Segregate financial duties or establish mitigating controls

Response and Corrective Action Plan:

The Village agrees with the finding that duties are not adequately segregated. This is an issue of current staffing levels and the need for employees that are part of the financial process to have multiple responsibilities. The corrective action for this finding was addressed in our current budget. The Village Board of Trustees, prior to the completion of this audit, created a position of Accountant which will assist in the segregation of financial duties and further separate out the numerous aspects of the disbursement process. This position will have oversight by the Village Manager. This position anticipated to be filled within the next month, once all reviews are completed.

- 2.) Finding: Bank Reconciliations were not performed in a timely manner

Recommendation: Complete Bank Reconciliations accurately and in a timely manner

Response and Corrective Action Plan:

We agree that the reconciliations for some of the village's bank accounts should be completed in a more timely manner. While other village accounts are completed more timely, attention should be made to complete all on a timely basis. All accounts are reviewed and audited on an annual basis

by the village's independent auditors as part of the preparation and completion of the annual financial statements. As shown in our annual financial statements and with this audit, there were no significant discrepancies in the reconciliations. Also, during this audit period there were over \$23 million in non-payroll disbursements made and over \$287,000 were examined by auditors and it was found that the disbursements that were examined were accurate and supported. To correct the timeliness issue of the reconciliations going forward the village has implemented the following procedures. We are working with current staff on addressing the issue of completing the reconciliations on a scheduled basis. The position of Accountant as mentioned in the previous response will also be responsible for timely and accurate reconciliations of certain accounts. The Village Manager will be responsible for the implementation of this process and for oversight of the reconciliations for these bank accounts. The accountant will complete the reconciliations and submit to the Village Manager for review and approval. We appreciate the guidance and recommendations provided by the auditors and found the information provided as helpful in implementing our plans to address this issue.

3.) Finding: The Board did not properly audit claims

Recommendation: The Board should perform a deliberate and thorough audit of all claims

Response and Corrective Action Plan:

We agree that an official claims auditor should be appointed to effectively audit all claims for each accounts payable disbursement. This will ensure that each transaction is audited for proper authorization, proper approval and that the claims are for acceptable village purposes. As noted in the report, current claims are reviewed by the Village Manager, Mayor, Board of Trustees and Deputy Clerk/Treasurer. For the audit period, 100 claims for check disbursements totaling \$249,383 and 179 credit card transactions totaling \$37,827 were examined. It was found that these claims contained appropriate support and were for proper and valid purposes. Moving forward, the claims auditor will be responsible for reviewing all proposed disbursements for accuracy and confirming they are for authorized transactions. The claims auditor will be a duty of the accountant position and supervised by the Village Manager. This claims audit will be completed for each disbursement period and the claims auditor will certify to the Board of Trustees that all included disbursements are acceptable for approval. While we have undertaken action to improve our current claims audits, full implementation will be achieved when these duties are performed by the accountant. This is anticipated to be completed within the next month.

The Village of Endicott sincerely appreciates the review and recommendations from the Office of the NYS Comptroller that were included in this audit report. We are confident that our corrective actions will be swiftly implemented and will create a positive benefit on the internal controls identified in the audit findings. Our staff has valued the time to work with the Comptroller's Office during this audit.

Sincerely,

Linda Jackson
Mayor

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials to obtain an understanding of the disbursement and claims audit processes.
- We applied Benford's Law¹ to amounts paid via check from June 1, 2019 through February 28, 2021 and selected amounts that did not follow an expected frequency. From the results of that analysis, we selected a random sample of 100 claims totaling approximately \$249,383 to determine:
 - Whether they were for proper Village purposes.
 - Whether they contained adequate supporting documentation.
 - Whether the vendor names and amounts on the related canceled check images matched the claims.
- We judgmentally selected the three largest credit card payments for each of the Village's two bank credit cards, representing 179 purchases totaling \$37,827, to determine whether purchases contained adequate support and were for appropriate Village purposes.
- We interviewed staff responsible for bank reconciliations and reviewed the most recent external audit report to determine whether reconciliations were completed accurately and timely.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

¹ <https://www.journalofaccountancy.com/issues/2017/apr/excel-and-benfords-law-to-detect-fraud.html>

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 provided to our office within 90 days, pursuant to Section 35 of 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 the CAP available for public review in the Clerk-Treasurer's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

BINGHAMTON REGIONAL OFFICE – Ann C. Singer, Chief Examiner

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel (607) 721-8306 • Fax (607) 721-8313 • Email: Muni-Binghamton@osc.ny.gov

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