

Village of Montgomery

Board Oversight of the Treasurer's Office

JULY 2021



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

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Report Highlights

Village of Montgomery

Audit Objective

Determine whether the Village of Montgomery (Village) Board of Trustees (Board) provided adequate oversight of the Treasurer's office financial operations.

Key Findings

The Board did not provide adequate oversight of the Treasurer's financial operations. The Board did not:

- Know the Treasurer did not comply with water and sewer Village laws and codes resulting in \$29,300 in penalties not being assessed.
- Implement sufficient compensating controls to minimize the risks associated with the lack of segregation of duties within the Treasurer's office.
- Approve or authorize anyone to approve billing adjustments for water and sewer bills nor require adjustments to be documented and retained.
- Perform required annual audits. The last required audit was conducted in 2016.

Key Recommendations

The Board should:

- Ensure the Treasurer's office complies with water and sewer Village laws and codes.
- Establish sufficient compensating controls over the segregation of incompatible duties within the Treasurer's office.
- Ensure the required annual audit is conducted.

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

Background

The Village, located in the Town of Montgomery in Orange County, is governed by an elected Board composed of a Mayor and four trustees.

The Board is responsible for oversight and general management of Village financial activities.

The appointed Treasurer is the chief fiscal officer and is responsible for the Village's day-to-day financial activities, which include processing cash receipts, disbursements, and payroll.

The Board appointed a Deputy Treasurer (Deputy) who performs the same financial activities as the Treasurer.

Quick Facts

2019-20 Budgeted appropriations	\$5,764,190
2019-20 Total Cash Receipts	\$5,363,561
Total Population	3,814

Audit Period

June 1, 2018 – December 3, 2019

The audit scope was extended to May 31, 2020 for testing water and sewer payments.

Board Oversight of the Treasurer's Office

How Should a Board Monitor the Treasurer's Office Operations?

A board is responsible for establishing an internal control system to ensure that a treasurer properly collects and disburses money. This responsibility includes ensuring that appropriate policies and procedures are established and enforced. It should provide adequate segregation of duties so that one individual does not control all phases of financial transactions. Specifically, one individual should not have the ability to authorize, execute and record a transaction or control the entire cash receipts and disbursements processes. When it is not practical or cost effective to segregate financial duties, a board must ensure compensating controls are in place.

Compensating controls include establishing oversight procedures designed to reduce the risk of errors or irregularities occurring and remaining undetected. These controls include routinely reviewing work performed by individuals who maintain custody of assets and who approve or record transactions affecting those assets.

A board should approve all billing adjustments, write-offs and refunds prior to such adjustments or refunds being made. Further, a board should review adjustment reports from the system and verify that billing adjustments were approved and were for appropriate purposes. The reasons for all adjustments should be documented and retained for audit purposes. In addition, adequate oversight includes ensuring that village residents are charged correctly for water and sewer usage and penalties.

In addition, a board is required to annually audit, or contract for an annual audit, of a treasurer's records. The audit of the financial details should be thorough and sufficiently detailed to provide board members with an understanding of village operations, which is essential to effective oversight. An annual audit is a fundamental step in the oversight process, especially when staffing levels prevent proper segregation of financial duties. It also can help a board become more involved in village finances to help ensure that sufficient control is being maintained over village operations.

The Board Needs to Improve Oversight of the Treasurer's Office

The Board reviews financial activity through monthly budget to actual reports they receive from the Treasurer. However, it did not have sufficient internal controls or compensating controls in place to adequately monitor cash receipts, cash disbursements, billings or wire transfers.

The Treasurer and Deputy performed all aspects of the cash receipts and disbursements processes, including collecting, depositing and recording cash receipts; preparing and signing checks for claims payments and payroll; reconciling bank accounts; making journal entries, and executing wire transfers. While there are two people performing the process, the processes should be segregated with one person reviewing the work of the other.

They performed these duties without adequate review or approval by the Mayor or Board. In addition, other than the Treasurer or Deputy, no one received or reviewed bank statements or canceled check images to help minimize the risk of unauthorized transactions or other errors or irregularities occurring and remaining undetected.

Due to the incompatible duties of the Treasurer's office, we reviewed cash receipts for real property tax, sewer, water, recreation and other miscellaneous receipts; disbursements; and payroll. We found that, with the exception of minor deficiencies discussed with Village officials, the transactions were accurately accounted for. (See Appendix B.)

Furthermore, the Board did not approve or authorize anyone to approve billing adjustments for water and sewer bills, nor require adjustments to be documented and retained for audit purposes. Therefore, the Board did not review the adjustments made to ensure they were for appropriate purposes.

We reviewed the 20 billing adjustments made during the 2019-20 fiscal year totaling \$9,803 and determined the adjustments were valid and supported. However, without formal approval, adjustments can be made to water and sewer bills that would allow the opportunity to carry out and conceal errors or fraud in the normal course of their duties without detection.

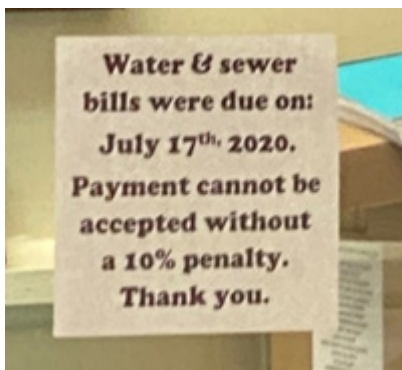
Although we did not identify any significant discrepancies during our audit testing, a lack of segregation of duties without compensating controls increases the risk that errors and irregularities could occur without detection.

The Treasurer's Office Did Not Adequately Assess Penalties for Water and Sewer

We reviewed water and sewer collections for the 2019-20 fiscal year totaling \$627,064 to determine if penalties were properly assessed. Water and sewer bills are due and payable on the first day of June and on the first day of December. Bills not paid within 30 days thereafter should be assessed with a 10 percent penalty. Additionally, June sewer bills still delinquent 30 days after the December payments are due should be charged an additional 10 percent penalty.

Our review found that the Treasurer assessed June 2019 penalties 14 days late (on July 15th) and December 2019 penalties 22 days late (January 23rd). For the 2019-20 fiscal year, the Village collected \$363,125 for principal payments more than 30 days after payments were due and charged \$7,428 for penalties. However, because the date the penalties began to be assessed were 14 and 22 days later than those legally required, it resulted in a difference of as much as \$29,300 in penalties that may not have been charged.

FIGURE 1



The inaccurate penalties charged occurred because the Treasurer mailed the water and sewer bills out with later due dates as he was not aware of the Village code regarding penalty dates. Additionally, the Board did not monitor the financial activities of the Treasurer's office to ensure Village water and sewer codes were being followed. As a result, the Village may have forfeited water and sewer revenue because errors occurred and went undetected.

The picture in Figure 1 is from July 2020, taken after the audit scope period, but demonstrates the Village is still continuing to assess penalties after the dates established in Village code.

The Board Did Not Conduct Annual Audits of the Treasurer's Records

The Treasurer provided monthly reports to the Board. However, the Board did not perform the required annual audit, nor did they contract with an independent auditor to audit the Treasurer's books and records during our audit period.

The Mayor told us that no external audit has been done on the Treasurer's records since the current Treasurer was appointed in May 2016. Also, Village officials could not provide us with any evidence that they confirmed the completeness or accuracy of the Treasurer's records as part of their review. Without sufficient oversight of the Treasurer's financial duties and an annual audit, the Village has an increased risk that errors and/or irregularities could occur and remain uncorrected. The improper handling of late payment penalties is one example of the risk from lack of proper oversight of Village finances.

What Do We Recommend?

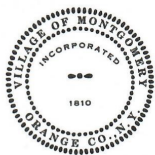
The Board should:

1. Develop policies and procedures to segregate the responsibilities of the Treasurers and Deputy's duties or implement compensating controls.
2. Approve all or designate someone independent of the process to approve all billing adjustments, write-offs and refunds prior to them being made, and require the documentation to be maintained.
3. Periodically review billing adjustment reports.
4. Ensure the Treasurer's office complies with water and sewer Village laws and codes.
5. Perform, or contract for, an annual audit of the Treasurer's records.

The Treasurer should:

6. Ensure bills and penalties are assessed in accordance with Village laws and codes.

Appendix A: Response From Village Officials



Village of Montgomery

133 CLINTON STREET
MONTGOMERY, NEW YORK 12549
P. O. BOX NO. 116
(845) 457-9661
FAX (845) 457-5698

June 24, 2021

Lisa Reynolds, Chief Examiner
New York State Comptrollers Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, N.Y. 12553

RE: Village of Montgomery Audit Report
Board Oversight of the Treasurer's Office 2021M-50

Dear Ms. Reynolds:

On June 3, 2021 the Village of Montgomery received the Office of the State Comptroller Preliminary Audit Findings covering the period beginning June 1, 2018, ending May 31, 2020. The Mayor, Deputy Mayor and the Treasurer have carefully reviewed the reports contents. Please allow this letter to serve as the Village of Montgomery's combined audit response and corrective action plan to the Office of the State Comptroller regarding the Preliminary Audit Findings of the Boards Oversight of the Treasurer's Office.

The Mayor, Board of Trustees and the Village Treasures Office would like to extend it thanks to the Office of the State Comptroller on its recent audit of the Village of Montgomery. Further we would like to extent our thanks to the Audit Staff [REDACTED]. They were professional, courteous and thoughtful during one of the most turbulent times caused by the pandemic. Despite the circumstances the process was helpful and enlightening.

The Village of Montgomery is committed to the highest levels of integrity regarding the financial transactions of the Village. As such, we take the audit findings very seriously and plan to remedy any weaknesses in our internal controls over the financial transactions. We are happy to note that the audit did not find any instances of fraud or misappropriation of financial assets.

Key Recommendations:

1. *Ensure the Treasurer's office complies with water and sewer Village laws and codes.*

Regarding the water and sewer billings, the Village will develop policies and procedures to make sure that Village laws and codes will be strictly followed. The policies and procedures will also address the documentation and approval of adjustments to the water and sewer bills. The Village Board intends on appointing the Village Department of Public Works Superintendent, Ralph "Buddy" Nelson to approve adjustments on their behalf. Finally, these policies and procedures will address the Board's responsibility regarding their oversight role concerning the water and sewer billing process.

TTY 1-800-662-1220 Voice 1-800-421-1220

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The Village is going to change its code to the following:

§ 96-54 Penalties for late payment.

Sewer use charges may be paid at any time within 30 days from the date they become due without penalty. In the event that the sewer use charges are not paid within 30 days, a penalty of 10% shall be added. An additional penalty of 10% shall be added to any sewer use charges remaining unpaid 30 days after the date when the next payment is due. Such penalties shall constitute additional sewer rents.

Change to

§ 96-54 Penalties for late payment.

Sewer use charges may be paid at any time within 45 days from the date they become due without penalty. In the event that the sewer use charges are not paid within 45 days, a penalty of 10% shall be added.

§ 118-55 Time of payments of water rents; penalties.

Bills for water rents shall be due and payable semiannually on the first day of June and on the first day of December, at the office of the Village Treasurer or authorized agent, except Saturdays, Sundays and holidays. To all bills not paid within 30 days thereafter, a penalty of \$0.10 on the dollar will be added.

Change to

§ 118-55 Time of payments of water rents; penalties.

Bills for water rents shall be due and payable semiannually on the first day of June and on the first day of December, at the office of the Village Treasurer or authorized agent, except Saturdays, Sundays and holidays. To all bills not paid within 45 days thereafter, a penalty of 10% will be added.

- 2. Establish sufficient compensating controls over the segregation of incompatible duties within the Treasurer's office.*

In order to strengthen internal controls over financial transactions, the Village will hire a CPA firm to review the internal controls and make recommendations for improvements. In addition, we will educate the Board regarding their role as oversight over the Treasurer's financial operations. Finally, the Village will hire an independent CPA firm to conduct an annual audit of our financial statements.

Our sincere thanks once again to the Audit staff for making this audit a smooth process. On behalf of the Board and the entire Village Staff, we will work diligently to implement the recommendations by the Comptroller's Office.

Sincerely,

L. Stephen Brescia, 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 reviewed Board minutes, Village policies and procedures, and water and sewer codes, and interviewed Village officials to gain an understanding of the Board's oversight of the Treasurer's office.
- We interviewed the Treasurer to gain an understanding of the controls over the financial operations of the Treasurer's office.
- We randomly selected 10 water and sewer bills (five from June 2019 and five from December 2019) and documented the amount billed. We then calculated the amount to be billed and calculated any difference.
- We documented the total billed for water and sewer for each period (June 2019 and December 2019) less the amount received in principal for each period to determine the total outstanding. We then compared the calculated outstanding to the outstanding report to determine any difference.
- We listed all 1,452 users for water and sewer for each period (June 2019 and December 2019), added any penalties assessed, less the amount received, to calculate the outstanding amount. We then compared the amount outstanding to the outstanding report and relevy report. We followed up on any differences and determined if the billing adjustment was valid and supported.
- We documented the total billed for real property tax for 2019-20 less the amount received to determine the total outstanding. We then compared the calculated outstanding to the tax warrant less omitted taxes listed to determine any difference.
- We judgmentally selected test months June 2019 and December 2019 to test all sewer and water receipts to corresponding deposits in the month and compared deposit slips to cash receipts and the cash receipts journal. We also verified if deposits were made intact, timely, detailed and reconciled to records.
- We judgmentally selected the test month of June 2019 to test all real property receipts to corresponding deposits in the month and compared deposit slips to cash receipts and the cash receipts journal. We also verified whether deposits were made intact, timely, detailed and reconciled to records.
- We judgmentally selected recreation receipts in the month of June 2019 as our sample and listed all 196 recreation receipts totaling \$23,513. We matched the 196 receipts to the five corresponding recreation deposits and to the June 2019 bank statement. We also documented whether deposits were made intact, timely and reconciled to receipts.

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- We judgmentally selected all 111 receipts totaling \$37,840 and the corresponding deposits in the month of June 2019 that were not categorized under Water/Sewer: Recreation and Real Property Tax and compared deposit slips to cash receipts and the cash receipts journal. We also verified if deposits were made intact, timely, detailed and reconciled to records.
 - We reviewed all water and sewer collections for 2019-20 totaling \$627,064. We prepared a schedule of all 2019-20 water and sewer receipts collected by the Village after payment deadlines totaling \$363,125 and documented the total penalties charged. We then calculated the difference in penalties calculated and the penalties collected.
 - We judgmentally selected and tested 25 property tax payments between July 1, 2019, and October 31, 2019, to determine whether the Village collected the 5 percent penalty due for bills paid after June 30, the 6 percent penalty due for bills paid after July 31, the 7 percent penalty due for bills paid after August 31, the 8 percent penalty due for bills paid after September 30, the 9 percent penalty due for bills paid after October 31 and the additional 7 percent penalty due on payments received after November 30.
 - We tested all relevy accounts for water, sewer and real property tax listed on delinquent reports to the relevy reports for accuracy.
 - We judgmentally selected and tested cash disbursements for the months of June 2019, September 2019, December 2019 and April 2020. We documented whether they were issued in sequence and matched the bank statement. Additionally, we reviewed bank statements and canceled checks and documented whether payee names on the general ledger matched payee names on canceled checks. We also documented whether checks were signed by an authorized Village official.
 - We judgmentally selected a sample of 50 unusual check payments totaling \$103,014 from the 2,344 checks disbursed during the audit period totaling \$6,651,772 and performed tests to determine whether claims were properly audited, claims were for valid Village purpose, the Village actually received the goods and services, the delivery addresses were valid, and goods and services were received and verified against quantity, type and condition.
 - We judgmentally selected the three largest checks to the Treasurer and Deputy Treasurer to determine whether claims were properly audited, claims were for valid Village purpose, the Village actually received the goods and services, the delivery addresses were valid, and goods and services were received and verified against quantity, type and condition.

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- We judgmentally selected June 2019, September 2019, December 2019 and April 2020 to all credit card charges on the statements. We reviewed the claims to determine whether they were properly audited and were for valid Village purposes, the Village actually received the goods and services, the delivery addresses were valid, and goods and services were received and verified against quantity, type and condition.
 - We judgmentally selected December 2019 as our test month and matched the 75 employees who were paid via payroll to employee names on the master list and the 2019-2020 list of elected and appointed officials. We also verified that the 75 employees had a separate direct deposit bank account number and were listed as active on the employee master list. Additionally we matched the Treasurer's and Deputy's weekly payroll data during 2019-20 to Board-approved rates. We also matched the Treasurer's and Deputy's health insurance deductions on payroll to amounts listed on the Village's health insurance bill and verified that bonus payments complied with the Village's handbook.

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.

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's office.

Appendix C: Resources and Services

Regional Office Directory

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

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

<https://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

<https://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

<https://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

<https://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

NEWBURGH REGIONAL OFFICE – Lisa A. Reynolds, Chief Examiner

33 Airport Center Drive, Suite 103 • New Windsor, New York 12553-4725

Tel (845) 567-0858 • Fax (845) 567-0080 • Email: Muni-Newburgh@osc.ny.gov

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