

Village of Spencer

Board Oversight

APRIL 2018



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

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Report Highlights

Village of Spencer

Audit Objective

Determine whether the Board provided adequate oversight of the Village's financial operations.

Key Findings

- The Board does not adequately monitor financial operations.
- The Board does not audit the Clerk-Treasurer's records.

Key Recommendations

- Request and review a monthly Treasurer's packet including accurate budget-to-actual reports, bank statements and bank reconciliations.
- Audit, or cause an audit of, the Clerk-Treasurer's records.

Village officials generally agreed with our findings and recommendations and indicated they will take corrective action. Appendix B contains our comment on an issue raised in the Village's response letter.

Background

The Village of Spencer (Village) is located in the Town of Spencer in Tioga County. The Village is governed by an elected Board of Trustees (Board), composed of four Trustees and the Mayor. The Board is the legislative body responsible for oversight and general management of Village financial operations. The Mayor is the Village's chief executive officer responsible for day-to-day management under the Board's direction. The Clerk-Treasurer is the chief fiscal officer, responsible for receiving, disbursing and maintaining custody of Village money, preparing financial reports and maintaining accounting records.

Quick Facts

Population	760
2017-18 Budgeted Appropriations	\$327,630

Audit Period

June 1, 2014 – October 10, 2017

Board Oversight

What Is Adequate Oversight of Financial Operations?

The Board needs complete and accurate financial records and reports to effectively oversee the Clerk-Treasurer's performance, monitor the Village's financial operations and make informed decisions in preparing the annual budget. The Board should periodically compare these records and reports to the bank statements to ensure they are complete and accurate. The Board should also ensure the Clerk-Treasurer accurately completes and files the Village's annual financial report with the Office of the State Comptroller (OSC) no later than 60 days after the close of the fiscal year. The annual financial report represents the Village's financial position and results of operations. Finally, the Board must annually audit or cause an audit of the Clerk-Treasurer's records to ensure Village moneys are properly accounted for.

The Board Does Not Adequately Monitor Financial Operations

The Board does not request any financial information from the Clerk-Treasurer either during the annual budget development process or periodically throughout the year. Further, because the Clerk-Treasurer does not fully understand the accounting software, she cannot create accurate monthly budget-to-actual reports for the Board to monitor financial operations. However, the Clerk-Treasurer does provide the Board with the abstract of claims and supporting vouchers to audit and approve claims on a monthly basis. Board members told us they keep the budget in mind as they approve these monthly expenditures.

During the budget development process, the Board reviews an expenditure summary created outside of the accounting software by the Mayor. The Board adjusts appropriations based on this document and then adopts the budget. We reviewed the results of operations for fiscal years 2014-15 through 2016-17 and found the Board overestimated expenditures by an average of 15 percent. The Clerk-Treasurer does not provide the Board with historical budget-to-actual reports and does not inform the Board of expenditure lines needed throughout the year during budget development. For example, the Clerk-Treasurer recorded expenditures, which were for proper Village purposes, even though they were not approved in the 2015-16 adopted budget, including the Village's share of federal employment taxes and legal and professional fees totaling \$13,000. Additionally, the Clerk-Treasurer filed inaccurate annual financial reports with OSC because she entered only the revenues and expenditures from the accounting software that had a corresponding code in the OSC software instead of all Village finances, which can be added along with their codes. For example, the 2017 annual financial report did not include utility expenditures totaling approximately \$25,300.

Because the Board does not request or receive accurate and detailed financial reports throughout the year, it does not have the necessary information to make well-informed budget decisions. Additionally, due to weak oversight by the Board, the Village's records are not accurate, and annual financial reports filed with OSC are not complete.

The Board Does Not Audit the Clerk-Treasurer's Records

The Board does not periodically review bank statements, bank reconciliations or any other supporting records. Moreover, the Board does not perform the required annual audit of the Clerk-Treasurer's records and reports, further diminishing its ability to monitor the Village's financial operations. Board members said they did not know they were required to annually audit the Clerk-Treasurer's records. However, this was a finding in our audit released in 2013.¹

We scanned all the bank statements for the scope period and reviewed all electronic transfers, all payments to Village officials, and nine payments to personal-use vendors totaling \$29,400. We determined all payments were Board-approved and for proper Village purposes. However, the lack of sufficient Board oversight is a control weakness that increases the risk of errors or irregularities occurring without detection and hinders the Board's ability to make informed financial decisions in the Village's best interest.

Without a periodic and annual review of budget-to-actual reports, bank statements and reconciliations or an accurate annual financial report, the Board has no way of knowing the actual financial condition of the Village.

What Do We Recommend?

The Board should:

1. Require the Clerk-Treasurer receive additional training in accounting principles, the use of the Village's accounting software, and the proper filing of financial reports with OSC.
2. Request and periodically review accurate budget-to-actual reports, bank statements and bank reconciliations.
3. Adopt realistic budgets based on actual expenditures.
4. Audit, or cause an audit of, the Clerk-Treasurer's records.

¹ Report 2013M-119, Village of Spencer: Financial Condition

The Clerk-Treasurer should:

5. Receive additional training in accounting principles, the use of the Village's accounting software, and the proper filing of financial reports with OSC.
6. Prepare accurate budget-to-actual reports periodically and during the annual budget development process.
7. File accurate annual financial reports with the OSC.

Appendix A: Response From Village Officials



Village of Spencer
PO Box 346
Spencer, NY 14883

Office of the State Controller
Division of Local Government
RE: Village of Spencer Board Oversight 2017M-292

March 22nd, 2018

The Village of Spencer received the NY State Comptroller's (OSC) Report of Examination covering the period of fiscal years 2014-15 through 2016-2017. The Village Trustees reviewed the draft report via email prior to the Clerk and Mayor meeting with the audit team on February 26th. The Mayor and Village Board appreciate the time and effort the audit team put into the audit, the professional and responsive manner each audit team member conducted themselves. Since the last Village audit, the Clerk and a few board members joined the Village leadership team. In addition, the Village implemented a computerized accounting system which replaced the paper transaction books.

The Village Board acknowledges and generally agrees with the audit findings and State recommendations with one exception, requiring the Clerk to assume check signing responsibilities. In an effort to increase financial controls and security, the Mayor was responsible for signing checks and the Clerk was responsible for generating the checks, thus creating a segregation of duties. To comply with the State standards, the Village passed a resolution to allow the Clerk to sign the checks. The Board had already begun to make process improvements in advance of the audit, including increased oversight with respect to the Clerk activities and will continue to incorporate the recommendations of the report. The Mayor has actively been requesting financial information from the Clerk and also performs periodic reviews on her own.

See Note 1 Page 10

The Village Board continues to improve internal procedures, expand Board member knowledge and improve its service to the residents. The Village has already begun to take actions which will address the findings in the audit report and improve procedures within the local government. The Corrective Action Plan outlined in subsequent pages of this communication addresses each of the OSC findings. Once again, we would like to thank the audit team for their detail report. As Mayor, I felt the experience was very valuable and positive.

Very truly yours,
Christine Lester

Mayor
Village of Spencer



Village of Spencer Corrective Action Plan

Unit Name: **BINGHAMTON REGIONAL OFFICE**

Audit Report Title: **Village of Spencer Board Oversight**

Audit Report Number: **2017M-292**

Audit Recommendation: The Board should require the Clerk-Treasurer receive additional training in accounting principles, the use of the Village's accounting software, and the proper filing of financial reports with OSC.

Implementation Plan of Action(s)

The Clerk has attended online Webinars from the accounting software vendor and will continue to explore training from the vendor as it becomes available. In addition, the Clerk has been registered to attend the OSC advanced accounting school in May and will be attending OSC online Webinars as they are available. Recently, the Clerk and members of the Board attended a NYCOM day of training where financial procedures and other oversight topics were discussed.

Implementation Date

In process, OSC school is scheduled for May 2018

Implementation Ownership

Mayor will oversee the progress of the Clerk and report back to the Board

Audit Recommendation: The Board should request and periodically review accurate budget-to-actual reports, bank statements and bank reconciliations

Implementation Plan of Action(s)

An Actual Budget report was created for the fire department expenditures and shared with the Board members for comments and to serve as a model for other variance reports. The Board received detail expenditures log in advance of each month's meeting. As there are only a few categories where the expenditures would have potential for variance, the Clerk will work to create a series of reports and snapshots for the Board. Bank statements have been included in the meeting documentation file which is presented to the Board at the beginning of the monthly meeting. The Board has the opportunity to review the bank statements, detail invoices, and the reconciliation report provided by the Clerk. Two Board members must review the details each month and sign off (through their motion to approve) as indications they have reviewed in detail each item.



Implementation Date

The reconciliation reports and Bank statements have already been updated and included in the monthly Board review and meeting process. The Clerk will begin to enter the annual budget and develop reports within the accounting system once the 2018-2019 Budget has been finalized. Target date for enhanced reporting and budget/actual variance reports is the end of August.

Implementation Ownership

Clerk will be responsible for entering the budget information and creating the new reports. Board members will be responsible for reviewing and making recommendations as well as determining how many types of reports are necessary each month/quarter. The Mayor will be responsible to ensure the process is completed by the end of August.

Audit Recommendation: The Board should adopt realistic budgets based on actual expenditures

Implementation Plan of Action(s)

The Board creates the Annual Budget using the following inputs, 1) historical trending of each expense account, 2) anticipated repairs and improvements to Village property and equipment, and 3) approved new/improved service enhancements. Each year the Budget is created with the expectation the reserved accounts will be slightly depleted per the suggestions of previous audits. The Board makes every effort to hold expenses down, even if Budget amounts are set at higher levels, and has consistently spent less money than budgeted as a result of frugal actions. The revenue budget has historically been lower than actual as there is no guarantee park, room rentals, or consumption-based fees will be realized.

Implementation Date

The 2018-2019 Budget draft is complete and ready for public comment. The Budget will be adopted in May 2018.

Implementation Ownership

Mayor, Clerk and Village Board

Audit Recommendation: The Board should audit, or cause an audit of, the Clerk-Treasurer's records

Implementation Plan of Action(s)

Monthly, the Board reviews the transactions and detail invoices for all expenditures. Annually the Board will select two members to review a randomly selected month and compare to the Bank statements, reconciliations and other supporting documentation. In May, the Clerk will generate a Year to Date expenditure report (which shall include the transaction amount, vendor name, account classification and the payment ID). The Mayor will review or delegate review of



the report to ensure the vendor, account information and payments are correct prior to closing of the Fiscal year. The Board shall contact the State (as was done in 2017) and request an audit or shall contract with an independent auditor(s) to review the financial process from time to time.

Implementation Date

May 2018

Implementation Ownership

Mayor and Clerk

Audit Recommendation: The Clerk-Treasurer should receive additional training in accounting principles, the use of the Village's accounting software, and the proper filing of financial reports with OSC.

Implementation Plan of Action(s)

The Clerk has attended online Webinars from the accounting software vendor and has participated in Webinars offered by the OSC, NYCOM and other resources. The Mayor shall contact the software vendor or delegate responsibility to determine if other training options are available.

Implementation Date

The Clerk has been registered to attend the OSC advanced accounting school in May 2018 and will be attending OSC online Webinars as they are available. Investigating training opportunities will be on going.

Implementation Ownership

Mayor and Clerk

Audit Recommendation: The Clerk-Treasurer should prepare accurate budget-to-actual reports periodically and during the annual budget development process

Implementation Plan of Action(s)

Upon approval of the 2018-2019 Budget, the Clerk will input the expense and revenue account information and create budget and variance reports for the Board to review.

Implementation Date

September 2018

Implementation Ownership

Mayor and Clerk



Audit Recommendation: The Clerk-Treasurer should file accurate annual financial reports with the OSC.

Implementation Plan of Action(s)

AUD reports had been previously filed incorrectly due to errors from previous Clerks and issues during the transition between manual accounting the implementation of the software system. The Clerk will prepare the AUD report and present to the Board at least two weeks prior to submission to the State. The Mayor shall review and provide final approval prior to final input to the State.

Implementation Date

July 15, 2018

Implementation Ownership

Clerk and Mayor

Respectively submitted:

Christine Lester

Mayor - Village of Spencer

March 22nd, 2018

Appendix B: OSC Comment on the Village's Response

Note 1

The Board may authorize the Mayor to sign checks in the absence or inability of the Treasurer. However, the Mayor routinely signing checks is inconsistent with Village Law. The Board can mitigate the risk created by the Treasurer performing all financial duties by establishing compensating controls, such as periodic reviews of financial information and canceled check images or requiring dual signatures of both the Mayor and Treasurer on checks.

Appendix C: 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 and reviewed Board minutes to gain an understanding of the Board's oversight of financial operations including the budget process, and to determine whether the Board performs annual audits of the Clerk-Treasurer's records.
- We compared the actual revenues and expenditures to the annual financial report submitted to OSC to determine the report's accuracy.
- We compared the budgeted revenues and appropriations to the actual revenues and expenditures from 2014-15 through 2016-17 to determine whether the Board adopted reasonable budgets.
- We reviewed previous OSC audit reports issued to the Village to determine whether the Board took proper action to correct the audit findings.
- We reviewed bank statements and selected all 44 electronic transfers and payments to Village officials and took a random sample of nine payments to personal-use vendors totaling \$29,500 to determine whether these payments were Board-approved and for proper Village purposes.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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 D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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www.osc.state.ny.us/localgov/index.htm

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

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