

Village of Delhi

Disbursements

JANUARY 2020



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

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Report Highlights

Village of Delhi

Audit Objective

Determine whether the Board and Village officials ensured disbursements, including payroll, were for proper purposes and supported.

Key Findings

The Board and Village officials did not ensure disbursements were for proper purposes and supported. We found:

- The former Clerk-Treasurer issued herself five checks totaling \$5,100 that she was not entitled to.
- Employees received payment for medical reimbursements totaling nearly \$5,700 that lacked adequate supporting documentation. Four employees, including the former Clerk-Treasurer, submitted duplicate claims for reimbursement totaling over \$1,000 for claims previously paid.

Subsequent to our audit, the former Clerk-Treasurer pleaded guilty to petit larceny, a misdemeanor, and agreed to pay full restitution plus \$500 to cover the Village's insurance deductible with a one year conditional discharge.

Key Recommendations

- Ensure an individual independent of payroll processing reviews payroll before payment.
- Create procedures for medical reimbursements to ensure that they are for proper purposes.
- Implement additional oversight over disbursements, including payroll.

Background

The Village of Delhi (Village) is located in the Town of Delhi in Delaware County. The Village is governed by an elected Board of Trustees (Board) composed of four Trustees and a Mayor. The Board is the legislative body responsible for oversight and general management of financial operations.

The Mayor is the Village's chief executive officer responsible for its day-to-day management. The Mayor appoints a Clerk-Treasurer who serves as the chief fiscal officer and is responsible for receiving, disbursing and maintaining custody of money, preparing financial reports, and maintaining accounting records. A Deputy Clerk-Treasurer and an Assistant assist with these duties.

The Village employed the former Clerk-Treasurer during our entire audit period. On July 19, 2019, the former Clerk-Treasurer resigned.

Quick Facts

Population	3,092
Employees	30
2019-20 Appropriations	\$3.7 million

Audit Period

June 1, 2017 – January 31, 2019. We extended our scope back to January 1, 2014 to determine whether the Clerk-Treasurer and Deputy Clerk-Treasurer's salary and deductions were accurately paid and whether certain disbursements were properly supported.

Disbursements

How Should the Board Provide Oversight Over Disbursements?

A board is responsible for establishing adequate internal controls over disbursements, including payroll processing, to provide reasonable assurance that transactions are properly authorized. Proper internal controls ensure that duties are adequately segregated so that one employee does not control all phases of a transaction. If limited resources make it difficult to segregate duties, village officials should implement compensating controls, such as periodically reviewing bank reconciliations, bank statements and check images. Additionally, officials should determine that the time employees work is properly documented, reviewed and approved to ensure that employees are appropriately paid.

A board also should establish and implement effective cash disbursement policies and procedures to help ensure disbursements are supported by appropriate documentation and are for legitimate purposes. Claims or vouchers that support disbursements should include invoices or receipts with enough detail to determine what was purchased and the price charged. Claims for medical reimbursements should include dates of service, patient name and payment type. In addition, village officials should provide adequate oversight, such as a deliberate audit of claims, to ensure that all claim reimbursement documentation requirements are met.

The Former Clerk-Treasurer Made Inappropriate Payments to Herself

The former Clerk-Treasurer was responsible for all aspects of processing payroll transactions, including inputting hours worked, processing and signing checks, distributing checks and reconciling the payroll bank account. She was also responsible for online banking activity and performing bank reconciliations for all other Village bank accounts, without any oversight.

We tested the former Clerk-Treasurer's payroll to determine whether she was paid according to Board- approved rates and whether withholdings were at proper rates and submitted to the appropriate agencies/vendors from January 1, 2014 through January 31, 2019. We also reviewed supporting documentation for all payments made to her for the same period to determine whether they were for proper Village purposes. We found she issued herself four paychecks totaling \$4,800 that she was not entitled to and one additional check from the another bank account totaling over \$300 that was labeled as a medical reimbursement, but had no supporting documentation. Additionally, all four of the payroll checks were printed from the computer system, and three were listed on printed payroll reports. However, when we requested and reviewed a more recent printout of a payroll check listing, we noted that the questionable paychecks were no longer listed, as if they had been deleted from the system after they were printed.

Furthermore, these four paychecks were not included on the former Clerk-Treasurer's W-2 forms for 2017 and 2018. We found additional minor discrepancies with her payroll withholdings, which we discussed with Village officials. Village officials and Board members told us that they could not explain the four extra paychecks and unsupported check made out to the former Clerk-Treasurer.

We also tested the payroll payments to eight other employees to determine whether they were paid according to Board-approved salaries and whether payroll withholdings were properly withheld and submitted to the appropriate vendors.¹ We found minor discrepancies in the salaries paid and withholdings submitted to vendors, which we communicated to Village officials.

Village officials did not review the payroll journals and timecards to ensure payroll was processed accurately or review bank statements or check images to ensure disbursements were proper. Village officials told us that they did not provide additional oversight over the former Clerk-Treasurer's work because they thought the annual audit from an independent audit firm would detect errors or discrepancies. We reviewed the prior audit reports and there were no findings significant to our audit objective.

Because the Board did not segregate the former Clerk-Treasurer's duties or ensure sufficient compensating controls were in place, the former Clerk-Treasurer made inappropriate payments to herself without detection.

Subsequent to our audit, the former Clerk-Treasurer pleaded guilty to petit larceny, a misdemeanor, and agreed to pay full restitution plus \$500 to cover the Village's insurance deductible with a one year conditional discharge.

The Board Did Not Ensure All Disbursements Were Properly Supported

The Deputy Clerk-Treasurer receives the invoices, creates the abstracts, and signs and mails the checks. Additionally, the former Clerk-Treasurer was responsible for making electronic transfers and withdrawals without any independent review, confirmation or approval. While a Board member and the Mayor review and initial the vouchers indicating their audit of the claims, not all vouchers included invoices and enough documentation to support that the disbursement was proper.

¹ We tested the Deputy Clerk-Treasurer from January 1, 2014 through January 31, 2019 because she also had access to the payroll system. We also tested the Mayor, Assistant Clerk and the other five employees from June 1, 2017 through January 31, 2019.

Medical Reimbursements – Village employees are entitled to reimbursement for medical expenses up to an annual amount as specified in their contracts. Employees submit vouchers and supporting documentation (such as invoices) to receive reimbursement. The Deputy Clerk-Treasurer maintains a spreadsheet to document the payments made to each employee to ensure that they only receive reimbursement up to the annual limit established in their contracts. We tested all 564 medical reimbursements totaling \$29,000 made to employees to determine whether they were appropriately paid² and found 74 claims totaling \$5,600 lacked adequate supporting documentation. For example, the former Clerk-Treasurer was reimbursed more than \$300 for contact lenses and the documentation attached to the voucher was a printout of an online shopping cart pre-order. There was no documentation to support that the contacts were actually ordered and paid for. Four employees, including the former Clerk-Treasurer, submitted 19 claims totaling \$1,088 for payments that were previously reimbursed.³ We compared the total paid to each employee to the amount allowed in their contracts and found the former Clerk-Treasurer was paid \$138 more than she was entitled to in 2015-16; the other employees were paid in accordance with their contract amounts.

Village officials told us that they thought the former Clerk-Treasurer tracked the medical reimbursements to ensure no duplicate payments were made and that the support was adequate. In addition, the Deputy Clerk-Treasurer informed us that she noticed the former Clerk-Treasurer exceeded her annual limit, but did not request that she reimburse the Village.

Other Disbursements – We tested 835 checks totaling \$9.8 million and 884 wires, withdrawals and interfund transfers totaling \$8.7 million to determine whether disbursements were for proper purposes. Although the wires, withdrawals and interfund transfers were all supported and for proper purposes, nine checks totaling \$1,815 were not supported and 11 checks totaling \$5,081 were supported by a voucher packet but not initialed as being reviewed. We determined that these disbursements were likely for proper Village purposes. These expenditures included tree removal and trimming, software maintenance and office cleaning.

These discrepancies were allowed to occur and go undetected because the Board did not properly audit claims or ensure proper compensating controls were in place to oversee the Clerk-Treasurer's work. Although the Mayor and his Deputy reviewed vouchers, invoices and supporting documentation, they did not perform a thorough review of the supporting documentation to ensure reimbursements were appropriate. For example, they did not ensure that submissions for medical reimbursement were not previously reimbursed and supporting documentation included date of service, patient name and the type

² We tested all claims paid to employees from June 1, 2017 through January 31, 2019 and extended the testing back to January 1, 2014 for the former Clerk-Treasurer.

³ Eleven of the 19 duplicate claims totaling \$842.44 were submitted by the former Clerk Treasurer.

of payment made. Furthermore, the entire Board did not audit claims. The other Board members told us that they only reviewed invoices if they questioned a claim listed on the abstract, since the Mayor and Deputy Mayor audited the claims. The Board also did not establish guidelines for the type of supporting documentation required to be submitted for medical reimbursements.

Because the Board did not establish appropriate guidelines or perform a thorough audit of claims, combined with a lack of segregation of duties, employees were reimbursed for expenditures to which they were not entitled.

What Do We Recommend?

The Board should:

1. Seek recovery of the five checks totaling more than \$5,100 that the former Clerk-Treasurer inappropriately paid herself.
2. Establish compensating controls to oversee the Clerk-Treasurer's duties, such as:
 - a. Designating someone to review bank statements, check images and monthly bank reconciliations.
 - b. Ensuring that payroll is reviewed by an individual independent of payroll processing before payment.
3. Create policies and procedures for the medical reimbursements to ensure that they are paid in accordance with established contracts and have adequate supporting documentation.

Appendix A: Response From Village Officials

Incorporated 1821



Re-Incorporated 1897

VILLAGE OF DELHI

P.O. Box 328 - 9 Court Street
Delhi, New York 13753
(607) 746-2258 • FAX (607) 746-6771

TDD -1-800-662-1220

The Village of Delhi is in receipt of the Comptroller's Audit report on disbursements. We appreciate the findings and acknowledge the report and documented weaknesses of our unwritten policies and procedures for the segregation of duties within the clerk's office. We have already taken many steps to address the deficiencies noted in the OSC's report.

At its July 22, 2019 meeting, the village board adopted and approved a written policy titled Payroll Check Procedures.

Employee time cards have been and are currently handled and checked by both the treasurer and deputy treasurer to determine the total hours worked by each employee as well as each supervisor having reviewed and signed off. Once tabulated, the deputy cuts the checks and the clerk reconciles the bank statement at the end of the month.

Currently the clerk reconciles all cash accounts monthly with [REDACTED] software. The village has introduced this software since January 2019.

In late 2018 and early 2019 our former clerk was taking significant amounts of time off which necessitated that the deputy and assistant clerk take on additional duties. It was then that they both noticed one error in the clerk's accounting of funds to which they notified me, the mayor, but the auditor was already in discovery.

The village clerk has assigned the recordings of medical reimbursements to the assistant clerk. In the past, there had been an unwritten procedure for entering the medical payment information and checking the supporting documentation.

The Village of Delhi is an equal opportunity employer and provider. To file a complaint of discrimination, write: USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W. Washington, D.C. 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

There is currently a proposed written policy, Employee Medical Reimbursement, on the village board's agenda for adoption on January 27, 2020 meeting.

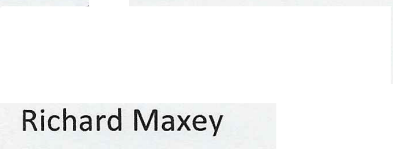
Aside from the above mentioned, how does the village board move forward? The oversight of disbursements needs to be examined in greater detail. Currently, the department supervisors sign the vouchers documenting that the contracted work has been completed or equipment and supplies received. The finance committee reviews these vouchers and signs their approval. At each monthly board meeting, the board approves the abstract.

The board as a whole or in part in the future will randomly audit payroll on a quarterly basis. When it comes to payment of vendors, the deputy clerk must require proper documentation before the finance committee approval is provided.

Currently, our timecard/payroll procedure is completed in two hours. Timecards are received on Friday morning, calculated and then checks printed and distributed. This system does not allow proper time for review. The only way the village can properly review timecards for accuracy and provide ample time for payroll is to institute a one week pay lag. In order for the village to accomplish this we will require time to discuss the lag with Teamster and PBA unions. This may take time to negotiate and implement.

Again, I wish to restate that the village board appreciates the findings of the Comptroller's Office, and is committed to taking corrective action as advised by the Comptroller's Office.

Sincerely,


Richard Maxey
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 and employees and reviewed Board minutes to gain an understanding of the Board's oversight of disbursements, including payroll.
- We tested the former Clerk-Treasurer's and Deputy Clerk-Treasurer's salaries from January 1, 2014 through January 31, 2019 to determine whether payments were authorized and agreed with the salaries set by the Board and whether withholdings were properly withheld and remitted to appropriate vendors.
- We reviewed a sample of seven employees' salaries from July 1, 2017 through January 31, 2019 to determine whether payments were authorized and agreed with the salaries set by the Board or contracts and whether withholdings were properly withheld and remitted to appropriate vendors. We used our professional judgment to select the Mayor and Assistant Clerk for our sample because these payments would be most at risk. We randomly selected one employee from the highway department, sewer department and water department, and we used our professional judgment to select two employees from the police department.
- We reviewed all 450 medical reimbursement claims paid to all employees (except the former Clerk-Treasurer) from July 1, 2017 through January 31, 2019 to determine whether they were properly paid and were adequately supported. We reviewed all 114 medical reimbursement claims paid to the Clerk-Treasurer totaling \$7,000 from January 1, 2014 through January 31, 2019 to determine whether they were properly paid and supported.
- We traced a sample of disbursements from the bank statements to the audited vouchers and supporting documentation to determine whether they were for proper purposes. We used our professional judgment to select 450 claims totaling \$9.1 million paid between January 1, 2014 and January 31, 2019 that posed a higher risk for inappropriate expenditures, such as payments to unusual or unknown vendors, all payments to the former Clerk-Treasurer, and all payments to the Deputy Clerk-Treasurer.
- We reviewed all 35 credit card payments totaling \$11,200 from June 1, 2017 through January 31, 2019 to determine whether they were for proper purposes because these would be at most risk. We randomly selected the month of December and selected all 159 checks and wires totaling \$374,400 issued for December 2017 and all 191 checks and wires totaling \$374,300 for December 2018 to determine whether they were for proper purposes.

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- We reviewed all 661 interfund transfers by check or withdrawal totaling \$6.8 million and all 223 online transfers totaling \$1.9 million from January 1, 2014 through January 31, 2019 to determine whether they were deposited into another Village bank account.

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 C: 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/pubs/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/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

Office of the New York State Comptroller
Division of Local Government and School Accountability
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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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