



THOMAS P. DiNAPOLI
STATE COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

ROBIN L. LOIS, CPA
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

June 2024

Dana Sherry, Village Mayor
Members of the Board of Trustees
Village of Herkimer
120 Green Street
Herkimer, NY 13350

Report Number: 2019M-102-F

Dear Mayor Sherry and Members of the Board of Trustees:

One of the Office of the State Comptroller's (OSC's) primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. OSC also works to develop and promote short-term and long-term strategies to enable and encourage village officials to reduce costs, improve service delivery and to account for and protect their village's assets. In accordance with these objectives, we conducted an audit of the Village of Herkimer (Village) to assess the water and sewer financial operations. As a result of our audit, we issued a report, dated August 16, 2019, identifying certain conditions and opportunities for Village management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the Village in March 2024 to review progress in implementing our recommendations. Our follow-up review was limited to interviews with Village personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, the Village has demonstrated minimal progress implementing corrective action. Of the seven audit recommendations, one recommendation was partially implemented and six recommendations were not implemented.

Recommendation 1 – Written Procedures

The Board should develop written procedures to provide adequate guidance for water and sewer billing, collection, adjustments and enforcement.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board did not develop or adopt written procedures over water and sewer financial operations. Village officials did not have an explanation for why corrective action was not taken. Because the Board has not developed these procedures, it has not provided adequate guidance to employees on the billing, collecting, adjusting and enforcing of water and sewer charges.

Recommendation 2 – Billing Adjustments

The Board should ensure prior approval occurs for all billing adjustments to customer accounts and adequate supporting documentation is maintained for all adjustments.

Status of Corrective Action: Partially Implemented

Observations/Findings: We reviewed all eight water and sewer customer account adjustments totaling \$5,201 that occurred in January and February 2024 to determine whether the adjustments received prior approval and had adequate supporting documentation indicating the need for the adjustment. Documentation on file showed that six adjustments totaling \$4,859 had received prior approval and were adequately supported. However, prior approval was not documented for one adjustment totaling \$107. Furthermore, the last remaining adjustment totaling \$235 had no documented prior approval and was not adequately supported, as the only information available evidencing the need for the adjustment was a hand-written note stating a customer reported a water leak at their premises. When customer account adjustments are not adequately supported and prior approvals are not documented, the Board cannot ensure adjustments are appropriate and authorized.

Recommendation 3 – Verification of Re-levy List

The Board should compare the list of unpaid customer accounts to the water and sewer re-levy list and ensure adequate supporting documentation of unpaid customer accounts is provided.

Status of Corrective Action: Not Implemented

Observations/Findings: Although the Board reviews and approves the water and sewer re-levy list, the Board does not receive documentation to support that all unpaid customer accounts are included on the list. The Clerk-Treasurer does not retain the list of unpaid water and sewer customer accounts from the Village's financial system that she uses to generate the re-levy list. The Clerk-Treasurer did not provide an explanation for not taking corrective action. Without the

list of unpaid customer accounts available, the Board cannot conduct an adequate review of the levy list to ensure all unpaid accounts have been properly included.

Recommendation 4 – Controls Over Collections

The Board should ensure employees who collect cash use separate cash drawers and separate usernames and passwords to enter transactions into the computerized financial system.

Status of Corrective Action: Not Implemented

Observations/Findings: Any of the five employees in the Clerk-Treasurer's office may accept walk-in water and sewer payments from customers at the Village office. These employees share one cash drawer and a single user account to enter collections into the financial system. However, when the same cash drawer and user account is shared among multiple employees, it reduces accountability because any significant cash shortage, overage or other irregularity may not be traceable to any one individual employee.

The Clerk-Treasurer acknowledged the lack of accountability over collections and, as a mitigating control, stated employees are required to initial all payment stubs received. We reviewed the stubs associated with 121 water and sewer payments totaling \$16,582 that were collected on a sample day in both January and February 2024. We identified 32 stubs (26 percent) that did not include an employee's initials, thereby limiting the ability to identify the employee who accepted and processed the payment. Without separate cash drawers and user accounts to record transactions, and absent effective mitigating controls, there remains a lack of accountability over water and sewer collections.

Recommendation 5 – Segregation of Duties

The Clerk-Treasurer should ensure the account clerk's duties are adequately segregated or implement effective mitigating controls to ensure there is sufficient oversight of the clerk's duties. This can include someone reviewing billing registers prior to posting and mailing customer bills, and comparing funds collected and recorded to funds deposited.

Status of Corrective Action: Not Implemented

Observations/Findings: Although various water and sewer financial duties, previously performed by the account clerk, have now been transferred to other employees, the duties still performed by the account clerk are incompatible and not adequately segregated. For example, the account clerk controls all aspects of the billing process including maintaining water and sewer customer account profiles, entering meter readings, billing customers and making adjustments to customer accounts. Furthermore, adequate controls have not been established to mitigate the risk involved in concentrating key aspects of the billing process with the account clerk. For example, although the account clerk prints and reviews billing registers prior to posting and mailing customer bills, these registers are not generally reviewed by another employee unless the account clerk identifies an issue.

In addition, the duties transferred to other employees are also incompatible and not adequately segregated. Each day, one of two employees (either the Deputy Clerk or Deputy Treasurer) counts and reconciles daily collections, posts payments to the financial system and customer accounts, and prepares the bank deposit. However, employees responsible for handling collections and preparing bank deposits should not record transactions in the accounting records. When duties are not adequately segregated, there is an increased risk that errors or irregularities could occur and not be detected.

Recommendation 6 – Reconciliations

The Clerk-Treasurer should reconcile the water and sewer receivable control accounts in the Village's accounting records to the total individual customer account balances on a monthly basis and resolve any differences.

Status of Corrective Action: Not Implemented

Observations/Findings: The Clerk-Treasurer does not have procedures in place to reconcile the water and sewer receivable control account balances to the total unpaid customer account balances. The Clerk-Treasurer, who was reappointed to the position in February 2023,¹ stated she has not had time to reconcile the receivable control accounts because of time needed to complete work not finished by her predecessors, including updating the Village's financial records and filing required financial reports.²

We reviewed the water and sewer receivable control account balances as of March 31, 2024, and compared them to the total of the individual unpaid customer account balances as of the same date. Combined, the control accounts were \$478,273 less than the customer account balances.

This difference occurred, in part, because the amount billed to water and sewer customers in November 2023 and February and March 2024 totaling \$485,025 was not recorded. Even if this amount had been recorded, there would remain a \$6,752 difference between the control account and customer account balances. The Clerk-Treasurer could not provide an explanation for this difference. Without monthly reconciliations, differences between the water and sewer control accounts and unpaid customer accounts went undetected and unresolved.

1 The Clerk-Treasurer had previously retired from the position in March 2020. Two other individuals served as Clerk-Treasurer until the current Clerk-Treasurer's reappointment.

2 Villages are required to file an annual report, known as the Annual Financial Report (AFR), with OSC after the close of the fiscal year.

Recommendation 7 – Unpaid Customer Accounts List

The Clerk-Treasurer should retain the list of unpaid customer accounts used to generate the re-levy list and provide supporting documentation and explanations for any differences between the lists.

Status of Corrective Action: Not Implemented

Observations/Findings: As noted in Recommendation 3, the Clerk-Treasurer does not retain the list of unpaid customer accounts used to generate the water and sewer re-levy list. Furthermore, the Clerk-Treasurer does not retain the supporting documentation necessary to explain any differences between the list of unpaid accounts from the financial system and the list of unpaid accounts included on the re-levy list. We attempted to obtain a copy of the list of unpaid customer accounts as of the re-levy cutoff date; however, the Clerk-Treasurer could not reproduce this list from the financial system. As a result, Village officials were unable to determine whether all unpaid water and sewer bills were properly relieved on the Village's taxes.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage Village officials to continue their efforts to fully implement our recommended improvements.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Rebecca Wilcox, Chief of Municipal Audits of our Syracuse Regional Office at (315) 428-4192.

Sincerely,

Robin L. Lois, CPA
Deputy Comptroller