



Village of Herkimer

Clerk-Treasurer's Records and Reports

2024M-136 | March 2025

Contents

- Report Highlights 1**

- Clerk-Treasurer’s Records and Reports 2**
 - How Can a Clerk-Treasurer Maintain Accurate Financial Records? 2
 - The Clerk-Treasurers Did Not Maintain Accurate Financial Records 2
 - What Reports Are Needed to Manage a Village’s Finances? 4
 - The Clerk-Treasurers Did Not Provide the Board with Adequate Monthly Reports 4
 - The Clerk-Treasurers Did Not File Required Annual Financial Reports 5
 - What Do We Recommend? 6

- Appendix A – Response From Village Officials 7**

- Appendix B – Audit Methodology and Standards 8**

- Appendix C – Resources and Services 10**

Report Highlights

Village of Herkimer

Audit Objective

Determine whether the Village of Herkimer (Village) Clerk-Treasurers maintained complete, accurate and up-to-date financial records and reports.

Key Findings

The current and former Clerk-Treasurers did not maintain complete, accurate or up-to-date financial records and reports. As a result, the Village Board (Board) lacked the financial information necessary to properly monitor and manage Village finances. The Clerk-Treasurers did not:

- Properly record financial activity totaling \$10.5 million that related to the processing of bank transfers, payroll, real property taxes and cash receipts and disbursements.
- Perform bank reconciliations in an accurate or timely manner, allowing discrepancies between general ledger cash balances and adjusted bank balances to remain unidentified and unresolved.

As of February 29, 2024, cash balances did not agree with bank balances for 27 of the 37 bank reconciliations we prepared, and total cash in the financial records was \$1.9 million higher than the Village's total adjusted bank balance.

- Provide monthly balance sheet reports to the Board or comply with New York State General Municipal Law Section 30 by filing required Annual Financial Reports (AFRs) with the New York State Office of the State Comptroller (OSC).

Furthermore, the Board did not annually audit the Clerk-Treasurers' records and reports, as required by New York State Village Law (Village Law) Section 4-408(e).

Key Recommendations

The audit report includes seven recommendations that will improve the Clerk-Treasurer's records and reports and the Board's oversight of financial operations.

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

Audit Period

June 1, 2022 – October 1, 2024

Background

The Village is located in the Town of Herkimer in Herkimer County and is governed by an elected Board composed of a Mayor and four Trustees.

The Board is responsible for the general oversight of Village operations and finances. The Mayor, as the chief executive officer, is responsible for managing the Village's day-to-day operations under the Board's direction.

The Board-appointed Clerk-Treasurer is the chief financial officer and custodian of all funds, and is responsible for receiving and disbursing money, maintaining accounting records and preparing monthly and annual financial reports. Three individuals served as the Clerk-Treasurer during our audit period. The current Clerk-Treasurer was reappointed to the position in February 2023 after retiring in March 2020. During her absence, one individual served until August 2022 and another until the current Clerk-Treasurer's reappointment.

Quick Facts

2024-25 Appropriations \$9.5 million

Delinquent AFRs as of October 1, 2024

| Fiscal Year | Date Filed | Days Late |
|-------------|------------|-----------|
| 2020-21 | 2/2/2023 | 521 |
| 2021-22 | 1/24/2024 | 513 |
| 2022-23 | Not Filed | 398 |
| 2023-24 | Not Filed | 32 |

Clerk-Treasurer's Records and Reports

How Can a Clerk-Treasurer Maintain Accurate Financial Records?

A clerk-treasurer must comply with Village Law Section 4-408 that requires them to keep a complete and accurate account of all receipts and disbursements using proper accounting procedures. To ensure receipts, disbursements and other financial activities (e.g., transfers between bank accounts) are properly recorded, a clerk-treasurer should prepare monthly bank-to-book cash reconciliations to verify that bank account balances agree with the corresponding cash balances in the financial records. Any differences identified during the reconciliation process should be promptly investigated and resolved to ensure cash balances are accurate and all financial activity is included in the financial records.

The Clerk-Treasurers Did Not Maintain Accurate Financial Records

The cash balances in the Village's financial records were not accurate and did not match adjusted bank balances. This occurred because the Clerk-Treasurers did not record certain receipts, disbursements and other financial activity using proper accounting procedures. Furthermore, bank reconciliations were not completed in an accurate or timely manner, allowing the discrepancies between the financial records and bank activity to remain unidentified and unresolved.

At the end of February 2024, up-to-date bank reconciliations had not been completed for any of the Village's 37 bank accounts. The current Clerk-Treasurer stated that bank reconciliations were not up to date because current staff were working to complete reconciliations for prior months that were not completed by the previous two Clerk-Treasurers.

We reviewed the most recent reconciliations for all 37 bank accounts and determined that six accounts had not been reconciled during our audit period. Of the remaining 31 accounts, two were last reconciled in 2023 and 29 were last reconciled in 2022. In addition, 13 of the 31 bank reconciliations (42 percent) were not properly prepared, as they had unresolved variances between the bank balances and cash balances and/or included unexplained reconciling items.

To determine the accuracy of cash balances in the Village's financial records, we prepared bank reconciliations for all 37 bank accounts as of February 29, 2024. Cash balances in the financial records were not accurate and did not agree with adjusted bank balances for 27 of the 37 bank accounts (73 percent). The differences for the 27 accounts ranged from a recorded cash balance exceeding the adjusted bank balance by \$3.3 million to an adjusted bank balance exceeding the recorded cash balance by \$2.2 million. Additionally, the Village's financial records included a total of \$44,062 in cash associated with bank accounts that were previously closed in January 2024. In total, cash in the financial records was \$1.9 million, or 44 percent, higher than the Village's \$4.3 million adjusted bank balance at the end of February 2024.

Due to the discrepancies between recorded cash balances and adjusted bank balances, and to determine whether financial activity was fully accounted for and appropriate, we tested the Village's cash receipts and disbursements. We reviewed cash receipts totaling \$9.8 million to determine whether they were properly recorded and deposited, and disbursements totaling \$1.2 million to determine whether they were for an appropriate Village purpose, adequately supported and paid as authorized. We also tested bank transfers totaling \$11 million to determine whether they were properly recorded

and went to a valid payee or another Village bank account, and reviewed bank statements to identify any cash withdrawals or other unusual bank activity.¹

All the cash receipts tested were deposited in full, disbursements were appropriate and generally were properly supported and authorized, and bank transfers were to Village bank accounts or valid third-party recipients. Furthermore, we did not identify any cash withdrawals or unusual bank activity on the bank statements reviewed. However, the Clerk-Treasurers did not properly record all activity in the financial system, as transactions totaling \$10.5 million were either recorded incorrectly or not recorded at all. For example:

- Transfers between Village bank accounts totaling \$3.3 million were not properly recorded. This included transfers totaling \$2.8 million that were not recorded in the financial records and a transfer totaling \$227,681 that was recorded in the wrong account. We also identified transfers recorded in the financial records totaling \$320,000 that were duplicate entries.
- Disbursements of net wages and employee withholdings totaling \$2.2 million were not properly accounted for within the financial records. When payroll is prepared, the gross wages to be paid from each fund is calculated, along with a breakdown of amounts to be withheld and amounts to be paid to employees. These amounts are then transferred to pooled bank accounts, with one account for employee withholdings and another for net wages. When these transfers are made, corresponding entries are made to increase the associated cash accounts in the financial records. Once payroll is processed and paid, entries should be made in the financial records to reduce (zero out) these cash accounts, leaving no balances.

During our audit period, the Clerk-Treasurers did not make the necessary entries to account for the disbursement of \$275,041 of net wages and employee withholdings, leaving this amount to remain within the associated cash accounts. Furthermore, these cash accounts had a combined opening balance of \$1.9 million as of June 1, 2022 (the beginning of our audit period), indicating that the disbursement of net wages and employee withholdings, equal to this amount, was not properly accounted for prior to our audit period.

- Real property tax payments totaling \$2.2 million were recorded to the wrong cash account in the financial records. These payments were received by the bank which the Village contracted with to accept and deposit mailed-in property taxes on behalf of the Village. As payments were processed, the bank sent electronic files to the Village that were uploaded to the financial system to record the taxes collected. However, the Village's financial system was not configured to properly process the payments included within these electronic files. As a result, the payments were recorded as deposited into an account different from the account where the payments were actually deposited.
- Cash receipts totaling \$2.1 million were not recorded in the financial records. The majority of these receipts were from New York State or were bond anticipation note proceeds deposited electronically into a Village bank account. Although deposited, these receipts were not recognized because bank reconciliations were not up to date.

¹ Refer to Appendix B for information on our sampling methodology.

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- Disbursements totaling \$692,878 were either not recorded in the financial records or recorded to the wrong account. Most of these disbursements were made through wire transfers to pay principal and interest on debt, or through cashier's checks that were issued by the Village's bank to purchase equipment, such as a truck for the Village's Department of Public Works. We also identified checks written out of one bank account but recorded in another within the financial records.
 - Other transactions in the financial records totaling \$29,475 were recorded incorrectly due to apparent entry errors made by the Clerk-Treasurers.

The current Clerk-Treasurer stated that the turnover in the Clerk-Treasurer's office and a lack of relevant experience by those in the Clerk-Treasurer position led to the inadequacies in the Village's financial records. The current Clerk-Treasurer also cited time constraints and the need to prioritize day-to-day financial transactions and responsibilities as the reason why bank reconciliations were not up to date. However, because timely bank reconciliations were not completed, inaccuracies in the financial records were not detected and resolved. Furthermore, without reliable financial records, the Board's ability to manage the Village's financial condition and make sound financial decisions is significantly diminished.

What Reports Are Needed to Manage a Village's Finances?

A clerk-treasurer should provide monthly financial reports to the village board (board) to allow monitoring of village financial affairs throughout the year. These reports should include a budget-to-actual comparison of revenue and expenditure accounts for each fund (budget status report) and a balance sheet report that shows each fund's total assets, liabilities and fund balance.

New York State General Municipal Law Section 30 requires the clerk-treasurer to file an annual report, known as the AFR, with OSC within 90 days after the close of the fiscal year.² The AFR is a report of a village's financial position and results of operations, and provides the board, OSC, village taxpayers and other interested parties with a tool for monitoring financial activity.

The Clerk-Treasurers Did Not Provide the Board with Adequate Monthly Reports

The Clerk-Treasurers generated budget status reports that were provided to the Board during monthly meetings. The reports appropriately included the original budget, authorized budget amendments or transfers, actual transactions to date (i.e., revenues and expenditures) and differences between the amended budget and actual transactions. However, these reports contained inaccuracies because of the improperly recorded cash receipts and disbursements previously mentioned in this report.

Furthermore, the Clerk-Treasurers did not provide the Board with monthly balance sheet reports. The current Clerk-Treasurer stated the reports were not provided because they contained inaccurate and outdated cash and fund balances which remained uncorrected because bank reconciliations were not completed and financial records were not brought up to date.

² The 90-day filing requirement applies to villages with populations between 5,000 and 19,999. The treasurer may request a 30-day extension from OSC.

When the Board does not receive adequate financial reports, it is unable to properly evaluate the Village's financial position, make informed financial decisions or properly monitor and manage operations.

The Clerk-Treasurers Did Not File Required Annual Financial Reports

The current Clerk-Treasurer did not submit an AFR to OSC for the Village's last two completed fiscal years. As of October 1, 2024, the reports for fiscal years 2022-23 and 2023-24 were 398 and 32 days overdue, respectively. Furthermore, because the previous two Clerk-Treasurers did not file AFRs for the Village's 2020-21 and 2021-22 fiscal years, the current Clerk-Treasurer had to file these reports. The Village's 2020-21 fiscal year AFR was filed in February 2023 and was 521 days overdue, while the 2021-22 fiscal year AFR was filed in January 2024 and was 513 days overdue. The current Clerk-Treasurer stated that the Village's AFRs could not be filed timely because the financial records were not accurate or up to date.

When AFRs are not filed in a timely manner, the Board, taxpayers, OSC and other interested parties are denied the ability to assess the Village's financial standing and the transparency of operations is diminished.

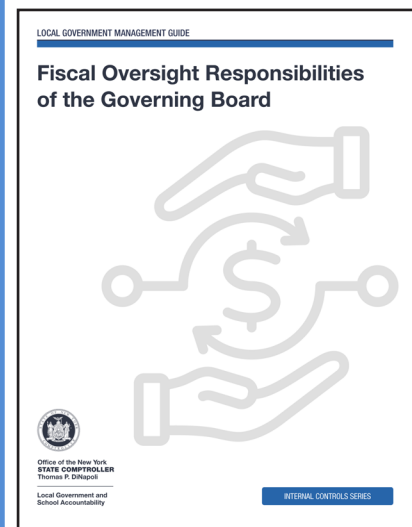
The poor records and reporting occurred, at least in part, because the Board did not effectively oversee the Clerk-Treasurers. For example, it did not audit, or provide for an audit of, the Clerk-Treasurers' records and reports for fiscal years 2022-23 and 2023-24 as required by Village Law Section 4-408(e). Although Board members were generally aware of the annual audit requirement, not all members understood how to conduct or obtain an audit. Furthermore, three Board members believed an annual audit could not be conducted because the Village's financial records were inaccurate and incomplete.

However, without an annual audit, the Board's ability to provide adequate oversight of financial operations is diminished. In addition, an annual audit serves as an opportunity to monitor any progress made in correcting known deficiencies with the financial records, or in identifying other conditions that need improvement. We referred Board members to our Local Government Management Guide titled *Fiscal Oversight Responsibilities of the Governing Board* (Figure 1) to improve their understanding of the Board's oversight role and to provide them with guidance on conducting annual audits of the Clerk-Treasurer's records.

FIGURE 1

Guidance Publication Provided to Officials

Fiscal Oversight Responsibilities of the Governing Board



Access this publication at:

<https://www.osc.ny.gov/files/local-government/publications/pdf/fiscal-oversight-responsibilities-of-the-governing-board.pdf>

What Do We Recommend?

The Clerk-Treasurer should:

1. Maintain complete, accurate and timely financial records that properly account for all financial activity.
2. Ensure the errors and omissions in the financial records that were identified during this audit are corrected.
3. Ensure bank reconciliations are completed in a timely manner and any differences between adjusted bank balances and recorded cash balances are promptly investigated and resolved.
4. Provide adequate and complete monthly reports to the Board, including budget-to-actual comparisons of revenues and expenditures, and balance sheet reports that accurately display assets (including reconciled cash balances), liabilities and fund balance for each fund.
5. File delinquent AFRs with OSC and ensure future AFRs are filed within 90 days after the close of the fiscal year.

The Board should:

6. Ensure the Clerk-Treasurer submits timely AFRs to OSC and provides the Board with budget status and balance sheet reports each month.
7. Conduct or arrange for an audit of the Clerk-Treasurer's records and reports on an annual basis.

Appendix A: Response From Village Officials

Village of Herkimer
Municipal Hall
120 Green Street
Herkimer, NY 13350
(315) 866-3303 • Fax (315) 717-0415
Site of Historic Fort Dayton
Settled 1725

March 4, 2025

Dear [REDACTED],

In response to the key findings of this audit, you are correct; the previous administration [REDACTED] and his Clerk/Treasurer [REDACTED] were not recording the daily activity since August of 2020. This included transfers, payroll, real property taxes, cash receipts, and disbursements.

In reference to the comment "February 29, 2024, cash balances did not agree with bank balances for 27 of the 37 bank reconciliations that you prepared": this was due to the fact that the previous two years had no entries posted leaving the bank balances higher than they were.

As a result, we could not provide the monthly balance sheets due to inaccuracies, we could only offer current expense and revenue reports. When we reached out to the previous board members, they informed us that they were not privy to any financial information pertaining to the village, therefore, they could not shed any light on the current financial issues.

By February 2023 the previous office staff was gone, and a new staff was being established. We created a new financial system using [REDACTED]. I was able to bring back the previous clerk [REDACTED] who was forced into retirement in 2020, and together with the new staff we have unraveled and repaired the destruction caused by the previous administration.

During this time the Village Attorney, [REDACTED], and I contacted the NYS Comptroller's Office several times to request an audit be completed as a baseline before I started my administration in July of 2022.

They finally arrived in 2024, the books were a mess, and the findings are as expected, because we were in the process of correcting them.

Since inheriting these issues in 2022, I am happy to announce that three Annual Update Documents have been filed by the Clerk's Office, and we are currently working on the fourth and final report that will be filed by the end of March 2025, at that point this office will finally be brought up to date and current.

Thank you for the opportunity to work with you.

Sincerely,

Mayor Dana Sherry

"This institution is an equal opportunity provider, and employer. 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)."

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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed Village officials and reviewed financial records and reports to obtain an understanding of controls over the Clerk-Treasurer's financial recording and reporting process, and to determine whether the Board audited, or obtained an audit of, the Clerk-Treasurer's records and reports for fiscal years 2022-23 and 2023-24.
- We obtained the filing status of the Village's 2020-21 through 2023-24 fiscal year AFRs to determine whether the reports were submitted within the required deadlines.
- We assessed the timeliness and adequacy of bank reconciliations for all 37 Village bank accounts as of February 29, 2024. We also prepared bank reconciliations as of this date to determine whether cash balances in the financial records were accurate and agreed with adjusted bank balances.
- We examined cash receipts totaling approximately \$9.8 million to determine whether they were properly recorded and deposited. Our testing included the following receipts:
 - Payments from New York State and Herkimer County totaling \$4 million received from June 1, 2022 through March 31, 2024.
 - Real property tax payments totaling \$5 million received during the 2022-23 tax collection season. We also verified the taxes collected plus unpaid amounts returned to the County equaled the 2022-23 levy amount on the tax roll.
 - Clerk fees, water and sewer rents, and other collections totaling \$772,624 received by the Clerk-Treasurer's office during the first week of June, July, October and November 2022, December 2023 and January 2024. We used our professional judgment to select these sample weeks in order to review collections accepted by each individual who served as Clerk-Treasurer during our audit period.
- We identified 378 payroll and non-payroll disbursements totaling \$996,436 that occurred during the sample months of May and July 2023, which were selected using a computerized random number generator. We used our professional judgment to select six months during our audit period (June, July, October and November 2022, December 2023 and January 2024) and identified an additional 75 non-payroll disbursements totaling \$189,053 that were made by each of the individuals who served as Clerk-Treasurer and we considered to pose a higher risk of being improper (i.e., unusually large payments considering the vendor, even dollar payments, and payments to Village officials, credit card vendors, utility vendors and unrecognized vendors). We reviewed all identified disbursements to determine whether they were for proper Village purposes, paid as authorized and adequately supported.

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- We tested bank transfers totaling \$11 million made by the Clerk-Treasurers during June, July, October and November 2022, December 2023 and January 2024, to determine whether they were properly recorded and went to another Village account or appropriate Village vendor. We also reviewed bank statements during these sample months to identify any cash withdrawals or other unusual bank activity.
 - We interviewed the current Clerk-Treasurer and reviewed available monthly financial reports to determine whether reports were adequately prepared and provided to the Board.

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-Treasurer's office.

Appendix C: Resources and Services

Regional Office Directory

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

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/fiscal-monitoring

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/resources/planning-resources

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

www.osc.ny.gov/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.ny.gov/local-government/required-reporting

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/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

<https://www.osc.ny.gov/local-government>

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

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