

# Village of Broadalbin

## Board Oversight of Cash Receipts and Disbursements

AUGUST 2020



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

# Contents

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- Report Highlights . . . . . 1**
  
- Board Oversight . . . . . 2**
  - How Should the Board Monitor Cash Receipts and Disbursements? . 2
  - The Board Could Improve Its Oversight Function . . . . . 3
  - What Do We Recommend? . . . . . 4
  
- Appendix A – Response From Village Officials . . . . . 6**
  
- Appendix B – Audit Methodology and Standards . . . . . 7**
  
- Appendix C – Resources and Services . . . . . 9**

# Report Highlights

## Village of Broadalbin

### Audit Objective

Determine whether the Board adequately monitored cash receipts and disbursements.

### Key Findings

The Board did not adequately monitor cash receipts and disbursements.

- Sufficient compensating controls were not implemented to minimize the risks associated with the lack of segregation of the Clerk-Treasurer's duties.
- The Clerk-Treasurer collected, deposited and recorded cash receipts and prepared and signed checks without adequate review or approval by the Mayor or Board.
- The Board did not receive or review bank statements or canceled check images to help minimize the risk of unauthorized transactions or other errors or irregularities occurring and remaining undetected.
- Proper annual audits of the Clerk-Treasurer's records were not performed.

### Key Recommendations

- Establish sufficient compensating controls, including periodically reviewing bank statements, canceled check images and bank reconciliations prepared by the Clerk-Treasurer.
- Perform, or contract for, an annual audit of the Clerk-Treasurer's records.

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

### Background

The Village of Broadalbin (Village) is located in the Town of Broadalbin in Fulton County.

The Village is governed by an elected Board of Trustees (Board) composed of a Mayor and four trustees. The Board is responsible for oversight and general management of Village financial activities.

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

The current Clerk-Treasurer was appointed April 1, 2019. The retiring Clerk-Treasurer held the position of Deputy Clerk-Treasurer to assist and train the newly appointed Clerk-Treasurer through the end of the audit period.

#### Quick Facts

Total Population	1,390
2019-20 Budgeted Appropriations	\$633,700
Disbursements During our Audit Period	\$1.7 million

### Audit Period

June 1, 2018 – January 31, 2020

# Board Oversight

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## How Should the Board Monitor Cash Receipts and Disbursements?

The Board is responsible for establishing an internal control system to ensure that the Clerk-Treasurer properly collects and disburses money. This internal control system 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, the 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 also include routinely reviewing work performed by individuals who maintain custody of assets and who approve or record transactions affecting those assets. The Board, or someone it designates, could certify payrolls and periodically review bank statements, canceled check images and monthly reports and reconciliations to minimize the risks associated with the lack of segregation of duties.

In addition, adequate oversight includes ensuring that the Clerk-Treasurer maintains adequate records to support financial transactions. When depositing funds in the bank, the Clerk-Treasurer should retain detailed and itemized supporting documentation<sup>1</sup> that identifies cash receipts deposited by amount and type (cash or check). This helps the Village track cash receipts from the payee to the bank. In a situation where one person controls all phases of transactions (receipt, recording and depositing), retaining detailed supporting documentation helps officials ensure that all Village funds received are deposited intact.<sup>2</sup>

Furthermore, the Board is required to annually audit, or contract for an annual audit, of the Clerk-Treasurer's records.<sup>3</sup> 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 the Board become more involved in Village finances to help ensure that sufficient control is being maintained over Village operations.

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<sup>1</sup> One option is to have the bank validate the deposit slip as a receipt issued by the bank to the Village for cash and checks deposited with the bank. The itemized information recorded on the receipt includes the date and time, amount deposited and the account into which the funds were deposited.

<sup>2</sup> Funds collected must be deposited intact, that is, in the same order and form (cash or check) in which they were received.

<sup>3</sup> Village Law, Section 4-408(e)

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## The Board Could Improve Its Oversight Function

The Board reviews financial activity through its monthly claims audit function, by certifying the police department payrolls<sup>4</sup> and by reviewing the Clerk-Treasurer's monthly reports.<sup>5</sup> However, it did not have sufficient internal controls in place to adequately monitor cash receipts and disbursements. The Board could implement additional procedures to more effectively minimize the risks associated with the lack of segregation of the Clerk-Treasurer's duties.

Segregation of Duties – The Clerk-Treasurer 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; and making journal entries.<sup>6</sup> She performed these duties without adequate review or approval by the Mayor or Board and, in some instances, without any review or approval. In addition, other than the Clerk-Treasurer, 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.

We reviewed property tax collections, water and sewer billings and disbursements to determine whether collections were deposited intact and in a timely manner and disbursements were authorized, supported and for a valid Village purpose. We also reviewed payroll amounts processed by the Clerk-Treasurer, who processed and certified her own payroll and Board members' and the code enforcement officer's payrolls. We found that the Clerk-Treasurer properly performed her duties, as follows:

- We reviewed cash receipts for the collection dates of 30 water charges and sewer rents totaling \$33,946<sup>7</sup> (9 percent) and the deposit dates of 30 property tax receipts totaling \$192,662<sup>8</sup> (24 percent) and found that the Clerk-Treasurer deposited the total amounts collected on those days and all collections in a timely manner. However, because the Clerk-Treasurer did not maintain detailed and itemized supporting documentation, we could not determine whether the deposits were made intact.

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4 One Board member certified the police department payrolls. Also, the Superintendent for Public Works certified the department of public works payrolls.

5 The monthly reports included information on bank account balances for all Village funds, including investment and reserve accounts; collections and deposits by source; audited bills paid and certified payrolls disbursed; transfers between Village accounts; and budget-to-actual revenue and appropriation analyses.

6 The Clerk-Treasurer collected cash for real property taxes, water charges and sewer rents and processed disbursements for the Village's payroll and claims payments from the general, water and sewer funds.

7 Water charges and sewer rents totaled \$360,000 and property tax collections totaled \$793,800 during our audit period. Refer to Appendix B for further information on our sample selection.

8 Ibid.

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In addition, other than the Clerk-Treasurer, no one received or reviewed bank statements or canceled check images...

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- We reviewed 30 disbursements totaling \$117,463 to determine whether the payments had adequate supporting documentation and were for a valid Village purpose. We found that payments were supported by itemized invoices, agreed to authorized vouchers for claims payments and were for a valid Village purpose.
  - We reviewed payroll amounts totaling \$15,400 paid to the Clerk-Treasurer and seven other employees<sup>9</sup> to determine whether these payroll payments were accurately disbursed as authorized. We found that the payroll disbursed was accurately calculated based on authorized rates and salaries.

Annual Audit – Although the Clerk-Treasurer presented her records to the Board for an annual audit, officials could not provide us with any evidence that the Board performed the required annual audit. The Village also did not contract with an independent auditor to audit the Clerk-Treasurer’s books and records during our audit period.

The Mayor told us that he and the other Board members scanned the Clerk-Treasurer’s records, but did not know that the Clerk-Treasurer’s records had to be audited annually. He also stated that even if he and the Board members were aware of the annual audit requirement, they would not know how to perform the audit.<sup>10</sup> As a result, officials could not provide us with any evidence that they confirmed the completeness or accuracy of the Clerk-Treasurer’s records as part of their review.

Although our reviews did not disclose any discrepancies, without sufficient oversight of the Clerk-Treasurer’s financial duties and an annual audit, the Village has an increased risk that errors and/or irregularities could occur and remain uncorrected.

## **What Do We Recommend?**

The Board should:

1. Establish sufficient compensating controls, including periodically reviewing bank statements and canceled check images and bank reconciliations prepared by the Clerk-Treasurer.
2. Require the Clerk-Treasurer to maintain sufficient documentation detailing amounts deposited by cash and check.

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<sup>9</sup> Refer to Appendix B for further information on our sample selection.

<sup>10</sup> For guidance on conducting audits, refer to our publication *Fiscal Oversight Responsibilities of the Governing Board*, which is available at: [www.osc.state.ny.us/localgov/pubs/lmgm/fiscal\\_oversight.pdf](http://www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf)

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3. Certify the Clerk-Treasurer's payroll or implement sufficient oversight of the Village's entire payroll process.
  4. Perform, or contract for, an annual audit of the Clerk-Treasurer's records.

# Appendix A: Response From Village Officials

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## Incorporated Village of Broadalbin, New York

*"The Friendly Village"*

*Incorporated 1924*

16 West Main Street P.O. Box 6 Broadalbin, NY 12025

Phone or Fax: (518) 883-8265

(T.D.D.# 1-800-662-1220)

e-mail: [broadalbinvillage@frontiernet.net](mailto:broadalbinvillage@frontiernet.net)

August 5, 2020

██████████, Principal Examiner  
NYS Office of the State Comptroller  
Division of Local Government and School Accountability  
One Broad Street Plaza  
Glens Falls, NY 12801

RE: Board Oversight of Cash Receipts and Disbursements

Dear ██████████

On behalf of the Board of Trustees of the Village of Broadalbin, our current and past Clerk/Treasurers, our Superintendent of Public Works and Myself, I am writing to acknowledge receipt of Draft report of the Audit of "Board Oversight of Cash Receipts and Disbursements".

The Audit period was from June 1, 2018 to January 31, 2020.

The Board of Trustees and Myself have reviewed the draft report and we agree with the Key Findings and Recommendations.

We want to thank the Office of the State Comptroller's personnel who participated in the Audit for their courtesy and professionalism. Providing us with "Real Life" examples of how things can go off the tracks, assisted us in our understanding of the important nature of the increase in oversight found in the findings.

Although most of the findings were addressed and corrected immediately, we will be submitting a separate Corrective Action Plan (CAP) to officially respond to the findings. I feel it is important to ensure the entire Board of Trustees approves the CAP and will be presenting the CAP at a future Village of Broadalbin meeting in which it will then become a part of the record.

Sincerely,

Lawrence Cornell,

Mayor, Village of Broadalbin

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Discrimination is prohibited by Federal law. Complaints of discrimination may be filed with USDA, Director, Office of Civil Rights Room 326-W, Whitten Building, 1400 Independence Ave., SW, Washington DC 20250-9410.

## Appendix B: Audit Methodology and Standards

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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 the Village's policy manual and interviewed Village officials to gain an understanding of the process and oversight for the Clerk-Treasurer's operations, including collecting and depositing water charges, sewer rents and real property taxes and disbursing claims and payroll payments. We also determined whether financial duties were adequately segregated or compensating controls were in place.
- We reviewed property tax payment schedule reports, water charges and sewer rent payment stubs, bank statements and checkbook registers for 30 days of property tax collections and 30 days of water charges and sewer rent collections to determine whether the collections were deposited intact and in a timely manner. For property tax collections, we randomly selected 15 collections by collection date. We also used our professional judgment to select an additional 15 collections that had dates when penalties should have been assessed. We chose the second group of 15 collections from the last eight deposits in 2018 and the last seven deposits in 2019, which had a combined total of \$192,662 in property tax collections. For water charges and sewer rent collections, we also randomly selected 15 collections by collection date and used our professional judgment to select an additional 15 collections that had dates when late penalties should have been assessed and that included payments received in cash totaling \$33,946 for water and sewer rent collections.
- We compared vouchers for claims payments to canceled check images and supporting documentation (i.e., itemized invoices) for 30 disbursements to determine whether they had adequate supporting documentation and were for a valid Village purpose. We randomly selected 20 disbursements totaling \$56,797 and used our professional judgment to select 10 disbursements totaling \$60,666 based on dollar amounts, vendor names and processing method.<sup>11</sup>
- To determine whether net payroll was accurately disbursed as authorized, we compared canceled check images for payees and amounts to the calculated net payroll. We also confirmed that two months of payroll was paid according to Board authorized rates and in the correct amounts for eight employees. We used our professional judgment to select the eight employees based on their employment status (full- and part-time and hourly and salaried) and to include employees from various departments who were paid on different

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<sup>11</sup> During our audit period, the Village implemented a new accounting system and changed the cash disbursement processing method from manual to computerized processing.

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schedules. We used our professional judgment to select December 2019 because it was the last completed payroll month of our audit period and June 2019 to include hourly rate changes.

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 Village Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional\\_directory.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf)

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[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263196&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All)

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

[www.osc.state.ny.us/local-government/fiscal-monitoring](http://www.osc.state.ny.us/local-government/fiscal-monitoring)

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[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263206&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All)

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

[www.osc.state.ny.us/local-government/resources/planning-resources](http://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

[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/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](http://www.osc.state.ny.us/local-government/required-reporting)

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

[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263211&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All)

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

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