

# Village of Canisteo

## Clerk-Treasurers' Records and Reports

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APRIL 2019

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

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# Report Highlights

## Village of Canisteo

### Audit Objective

Determine if the Clerk-Treasurer accurately and completely accounted for, recorded and reported all financial transactions in a timely manner.

### Key Findings

- The former Clerk-Treasurer did not maintain accounting records using the modified accrual basis of accounting.
- Accounting records were not adequate to properly monitor the Village's financial condition and operations.
- The former and current Clerk-Treasurer did not provide monthly financial reports of receipts and disbursements to the Board.

### Key Recommendations

The Clerk-Treasurer should:

- Maintain accurate and timely accounting records including revenues and expenditures using the modified accrual basis of accounting.
- Provide monthly financial reports to the Board.

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

### Background

The Village of Canisteo (Village) is located in the Town of Canisteo in Steuben County. The Village provides various services to its residents including street maintenance and repair, general governmental support, fire and police protection and water and sewer services. These services are primarily funded by real property taxes, sales tax and user fees.

The Village is governed by an elected Board of Trustees (Board) and a Mayor. The Mayor is the Village's chief executive officer responsible for the day-to-day management of the Village under the direction of the Board. The Board-appointed Clerk-Treasurer is the chief fiscal officer of the Village responsible for the custody and accounting of all Village money and is assisted by a Deputy Clerk-Treasurer (Deputy).

#### Quick Facts

Population	2,270
2018-19 Appropriations	\$1.87 million
Employees	25

### Audit Period

June 1, 2016 – September 6, 2018

# Clerk-Treasurers' Records and Reports

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The Board appointed Clerk-Treasurer's financial records and reports must be complete, accurate and up-to-date to be useful for managing Village operations. The Clerk-Treasurer is responsible for performing basic accounting functions, including maintaining accounting records and providing financial reports to the Board and outside entities. The Board must ensure the Clerk-Treasurer maintains reliable records and reports and have an annual audit conducted of the Clerk-Treasurer's records.

During our audit period, the Village experienced turnover in the Clerk-Treasurer's office. The former Deputy resigned in June 2017 and the current Deputy was hired in July 2017. The former Clerk-Treasurer resigned in September 2017 and the current Clerk-Treasurer was appointed in October 2017.

## How Should a Clerk-Treasurer Record Financial Transactions?

New York State Village Law<sup>1</sup> requires the clerk-treasurer to keep a complete and accurate account of the receipt and disbursement of all money using proper accounting procedures. The accounting records should accurately reflect the village's financial operations and condition and the clerk-treasurer should communicate this information to the Board monthly. To ensure that financial transactions are complete and accurate the clerk-treasurer should perform monthly bank-to-book cash reconciliations to ensure the accuracy of cash balances in her accounting records. Any differences found during the reconciliation process should be promptly documented and resolved.

Annual financial reports should be prepared and filed timely with the applicable organizations and effective monitoring should ensure that proper accounting procedures are utilized, including the use of the modified accrual basis of accounting.<sup>2</sup>

## The Clerk-Treasurers Failed to Record Financial Transactions Accurately and Timely

We reviewed various records and transactions including receipts and disbursement records and bank statements (see Appendix B). We found that the Clerk-Treasurers did not maintain accurate and timely accounting records in the computerized accounting program. Both Clerk-Treasurers improperly recorded revenues and expenditures, which misstated actual results and impacted budgeting. For example, the former Clerk-Treasurer netted revenues against

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1 Section 4-408

2 The modified accrual basis of accounting recognizes revenues when they become available and measurable and expenditures when incurred. Both are recorded using a double entry accounting system. (*Accounting and Reporting Manual*)

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expenditures by over \$70,000 in 2016-17, which, along with other errors, resulted in overestimation of the 2017-18 budget appropriations by \$118,890. They also did not record credit card receipts in a timely manner.

The former Clerk-Treasurer did not maintain the accounting records using the modified accrual basis of accounting, but instead maintained them on a cash basis. As a result, the accounting records were not adequate for Village officials to properly monitor the Village's financial condition and operations. For example, the Board was unaware of the large number of unpaid water and sewer user fees (user fees) and their negative impact on the cash flow of the water and sewer fund until it approved the relevy of unpaid user fees<sup>3</sup> on the next fiscal years' Steuben County real property tax bills. In addition, because the former Clerk-Treasurer failed to properly record the relevied user fees and unpaid real property taxes in the correct fund, the general, water and sewer funds' financial positions were misstated throughout her tenure.

Although the current Clerk-Treasurer attempted to record transactions on the modified accrual basis and ascertain the true financial position of the Village's operating funds, she was unable to quickly and accurately do so because of her inexperience and lack of training. As a result, the Village had insufficient cash flow and obtained a revenue anticipation note (RAN) for \$200,000 in January 2018 to continue Village operations.

The Office of the State Comptroller (OSC) provided training and guidance to the current Clerk-Treasurer on properly recording accounts receivable, accounts payable and payroll transactions. We also identified numerous accounting errors that were discussed with her so she could successfully correct her accounting records for the fiscal year ended May 31, 2018.

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

A clerk-treasurer should submit monthly financial reports that summarize receipts and disbursements for each fund. These reports should also include budget-to-actual comparisons of revenues and expenditures for each fund and a balance sheet report of reconciled cash balances.

A clerk-treasurer is required to file a village's annual update document (AUD), with OSC within 60 days after the close of the fiscal year, unless a clerk-treasurer applies for a 60-day extension. A clerk-treasurer, who prepares payroll, is responsible for preparing accurate payroll reports. This includes submitting quarterly reports by the last day of the month that follows the end of the quarter

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<sup>3</sup> Unpaid water and sewer user charges totaling \$131,551 and \$140,947 were relevied on the 2016-17 and 2017-18 real property tax bills.

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and remitting federal tax withholdings by the following Wednesday and State tax withholdings by the following Tuesday of a payroll period. All of these reports depend on accurate and timely accounting records.

### **Reports Were Not Provided or Were Not Provided Timely**

Both Clerk-Treasurers did not provide monthly financial reports of receipts and disbursements to the Board. The former Clerk-Treasurer provided budget-to-actual reports for July and September 2016, but they were inaccurate and September's report was provided in December 2016. Because the Village had to issue the RAN, the current Clerk-Treasurer provided the Board with cash balance reports for all funds beginning in January 2018.

The former Clerk-Treasurer did not apply for an extension or file the 2015-16 or 2016-17 AUDs. The current Clerk-Treasurer filed them on January 30, 2018, and February 6, 2018, respectively. At the end of fieldwork, the current Clerk-Treasurer applied for an extension and filed a timely and accurate 2017-18 AUD.

In addition, the former Clerk-Treasurer did not file periodic payroll reports or remit withholdings timely to the IRS or the New York State Department of Taxation and Finance, which resulted in paying fines and penalties totaling \$4,219 during our audit period and could result in more because we identified eight untimely filed payroll reports. The Board was unaware of this issue until the current Clerk-Treasurer brought it to its attention after receiving a late filing notice.

When the Board does not receive periodic financial reports and the year-end reports are untimely, it cannot make informed decisions and its oversight is limited. Further, because the Clerk-Treasurers' accounting records were inaccurate, the Village's true financial position was unknown. As a result, the Board appropriated \$170,000 in general fund balance to balance the 2018-19 budget, \$50,754 more than was available. We identified this issue and brought it to Village officials' attention so that they could address the potential financing shortfall by modifying the budget and reducing appropriations.

### **How Should a Board Provide Oversight of a Clerk-Treasurer?**

Village Law<sup>4</sup> requires a board to annually audit, or have a village officer, employee or an independent public accountant audit, the clerk-treasurer's financial records to provide an independent verification of the annual report and the supporting records. This provides board members with an added measure of assurance that the financial records and reports contain reliable information on which to base financial decisions.

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4 Section 4-408

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## **The Board Did Not Perform an Annual Audit of the Clerk-Treasurer**

The Board did not perform, or contract with an independent auditor to perform, an annual audit of the Clerk-Treasurers' books and records. The failure to perform an annual audit diminished the Board's ability to monitor financial operations. If the Board performed this fundamental duty, it may have identified the errors in the accounting records, lack of adequate reconciliations and other deficiencies in a timely manner and could have implemented corrective action.

## **What Do We Recommend?**

The Clerk-Treasurer Should:

1. Maintain accurate and timely accounting records including revenues and expenditures using the modified accrual basis of accounting.
2. Provide monthly budget-to-actual comparisons of revenues and expenditures for each fund and balance sheet reports of reconciled cash balances.

The Board should:

3. Monitor financial activities and make budget modifications as needed throughout the year.
4. Ensure the Clerk-Treasurer files the Village's AUD and payroll reports in a timely manner.
5. Annually audit the books and records of the Clerk-Treasurer.
6. Obtain financial training for itself, the Clerk-Treasurer and Deputy.

# Appendix A: Response From Village Officials



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Monica Recktenwald  
Mayor  
P: (607) 698-4553  
F: (607) 698-9109

February 21, 2019

Office of the State Comptroller  
Local Gov. & School Accountability  
The Powers Building  
16 E. Main St., Suite 522  
Rochester, NY 14614

Re: 30-Day Audit Response

Dear Edward V. Grant Jr.,

I, Monica Recktenwald, Village of Canisteo, Mayor, feel the recent audit completed by your office was completed accurately. The audit was handled professionally and with an understanding that these practices have been in place for many years prior to me taking office in April of 2017, and a new Clerk-Treasurer appointed in October 2017.

I agree with the findings outlined in the report and we immediately began correcting the issues as they were identified using the auditors recommendations and on-site training to correct years of poor practice. The following actions were implemented and in practice over the past several months:

- The new Clerk-Treasurer corrected accounting practices at the beginning of the June 1, 2018, Fiscal Year. She maintains accurate and timely accounting records including revenues and expenditures using the modified accrual basis of accounting. Cash receipts are recorded on a modified accrual basis which provides a clear understanding of our Accounts Receivable. She performs monthly bank-to-book cash reconciliations and any discrepancies found are documented and resolved immediately. In addition all receipts, expenses and month end reports are completed timely.
- Since July 2018 the Board has been provided full financial reports at each monthly board meeting that includes: budget-to-actual comparisons of revenues and expenditures for each fund and balance sheet reports of reconciled cash balances.

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Village Police Dept.  
(607) 698 4211  
Fax (607) 698-9397

Village Fire Dept.  
(607) 698-2711  
Fax (607) 698-2328

Village Justice  
(607) 698-4307  
Fax (607) 698-4534

Streets Dept.  
(607) 698-2117  
Fax (607) 698-4582



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Monica Recktenwald  
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- The Village Board reviews and approves budget modifications at the monthly board meeting. All modifications document the accounts the adjustments are made to and the total amount of the adjustment. Once the Board approves the adjustment, the Clerk-Treasurer reflects the entries in the Accounting Program.
- The Clerk-Treasurer provided the draft AUD for the 2017-2018 Fiscal Year to the Board prior to submission. The Board reviewed and approved for the Clerk-Treasurer to submit the AUD on behalf of the Village. The Mayor reviews all Payroll reports before they are submitted which identifies accurate payment to employees, timely payment of liabilities and proper application to each budget account.
- The Trustee assigned as the Budget Officer for the Village Board reviews all of the Clerk-Treasurer books and records monthly. The Clerk-Treasurer submits all receipts, disbursements and journal entries to the Trustee immediately following the close of the month and any entry adjustments or modifications are brought to the following board meeting for review and approval.
- The Clerk-Treasurer attended the Office of State Comptroller (OSC) Accounting School in 2018, completed several OSC Webinars and regularly reaches out to OSC Staff when assistance is needed. The Mayor and Budget Officer attended OSC Webinars, to include: Fiscal Stress Monitoring, Understanding Fund Balance and Capital Projects. The Board will continue to attend and review these trainings as they become available.

A formal corrective action plan will be available at Village Hall upon completion.

Sincerely,

Monica Recktenwald  
Mayor, Village of Canisteo

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## 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 interviewed Village officials responsible for financial oversight and maintaining accounting records and reviewed Board minutes to obtain an understanding of the Village's policies, procedures and financial reporting.
- We reviewed the Village's financial records and compared them to bank statements to determine whether all receipts and disbursements were recorded from June 1, 2016 through May 31, 2017.
- We judgmentally selected the computerized accounting records for June and July 2016, and July and August 2017 receipts and July 2016 and August 2017 disbursements during the former Clerk-Treasurer's employment. We selected these months to review transactions from the beginning of our audit period and at the end of the former Clerk-Treasurer's employment. We judgmentally selected April 2018 cash receipts and disbursements during the current Clerk-Treasurer's employment because it was the month directly before the start of our audit. We compared recorded cash receipts to deposit compositions, bank statements and supporting documentation such as check stubs, water and sewer payment journals, tax payment journals, permits and landfill tickets. We traced the cash disbursements to the vouchers and reviewed for appropriateness and timeliness. We also verified check stubs to the disbursements recorded in the accounting records and compared payroll disbursements to the time sheets.
- We performed a cash count of the Clerk-Treasurer on May 8, 2018, which was the start of fieldwork.
- We obtained the permits recorded in the code program from the Clerk-Treasurer from June 1, 2016 through May 8, 2018 (the start of fieldwork). We traced from the code program to permits and applications at the Village and the accounting records. Because the accounting records did not clearly identify which permits receipts were for, we reviewed the deposit slips and supporting documentation to identify the payees. We traced duplicate press numbered receipts to applications and building permits. For those permits with no fee in the computer system or corresponding deposit and applications with no permit on file, we sent out 47 confirmations to the applicants to determine whether payments were made.
- We reviewed the 2017-18 and 2018-19 budgets for reasonableness.
- To determine whether budget modifications were timely and approved by the Board, we reviewed Board minutes.

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- We prepared a cash flow analysis for 2017-18 to determine whether the Village had adequate cash flow to cover expenses.
  - We reviewed water and sewer billing frequency and rates to determine whether they were sufficient to cover expenditures.
  - We reviewed the RAN agreement issued on January 31, 2018, to document the RAN's purpose, due date and security.
  - We determined whether annual reports and periodic reports required by statute and the Board were filed in a timely manner and accurate. To assess timeliness, we reviewed all federal and State quarterly reports, federal deposits during our scope period and State deposits from July 15, 2016 through May 18, 2018.<sup>5</sup> For accuracy, we selected and reviewed the federal and State quarterly reports for the third quarter of 2016 and the first quarter of 2018 to review a report filed by each Clerk-Treasurer.

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's office.

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<sup>5</sup> This was all that was available from the State's website.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

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

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