

Village of Schoharie

Board Oversight

DECEMBER 2018



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

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Report Highlights

Village of Schoharie

Audit Objective

Determine whether the Board provided adequate oversight over the Clerk-Treasurer's duties.

Key Findings

- The Clerk-Treasurer and Deputy Clerk Treasurer perform all cash receipts and disbursements duties with little oversight from the Board.
- The Board has not audited, or contracted for an audit of, the Clerk-Treasurer's records.
- The Clerk-Treasurer has accrued compensatory time in excess of the 80-hour maximum, worth approximately \$23,600.

Key Recommendations

- Segregate the Clerk-Treasurer's duties or implement compensating controls such as reviewing bank reconciliations and comparing canceled check images to the Board-approved abstracts.
- Annually audit, or cause an audit of, the Clerk-Treasurer's annual financial report and supporting records.
- Monitor and enforce policies governing comp time leave accrual that address the accrual, use and payout of comp time.

Except as specified in Appendix A, Village officials generally agreed with our recommendations. Appendix B includes our comment on an issue raised in the Village's response.

Background

The Village of Schoharie (Village) is located in the Town of Schoharie in Schoharie County. The Village is governed by an elected five-member 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 Board appointed the Clerk-Treasurer, who is the chief fiscal officer and is responsible for receiving, disbursing and maintaining custody of money, preparing financial reports and maintaining accounting records.

The Department of Public Works Superintendent oversees the water and sewer departments and street maintenance in the Village.

Quick Facts

Population	831
2018-19 Appropriations	\$1,179,971
2018-19 Tax Levy	\$230,862

Audit Period

June 1, 2016 – June 6, 2018

Board Oversight

How Should the Board Provide Adequate Oversight?

The board and village officials are responsible for establishing effective controls over cash receipts and disbursements to ensure all receipts are deposited and all disbursements are approved and in the best interest of taxpayers. These controls should provide for segregating duties so that one individual does not control all phases of a transaction. When segregating duties is not possible, the board should provide sufficient oversight by implementing compensating controls. These controls could include someone independent of the receipts and disbursements processes routinely reviewing bank statements, canceled check images, cash receipts records and bank reconciliations.

New York State Village Law¹ requires the board to audit and approve all claims against the village as well as annually audit, or cause an audit of, the treasurer's annual financial report and supporting records. The annual audit provides an independent verification that cash and transactions have been properly accounted for, recorded and reported. It also provides the board with added assurance that financial records and reports contain reliable information on which to base financial decisions.

Additionally, it is important that the board adopts policies addressing leave use and accruals, including compensatory (comp) time. Generally, comp time is leave time that may be earned and accrued by an employee in lieu of receiving additional pay for time worked beyond their regular work hours. To help ensure consistent and appropriate accounting for and administration of this time, village guidelines should define how comp time will be authorized, earned, used, documented and monitored.

The Board Did Not Properly Oversee the Clerk-Treasurer's Duties or Audit Claims

The Clerk-Treasurer and Deputy Clerk-Treasurer (Deputy) perform all of the cash receipts and disbursements duties, such as billing water and sewer rents, collecting and depositing receipts, recording transactions, processing payroll, preparing and disbursing checks and reconciling bank statements. Although the Mayor periodically reviews the accounting records² and the Board receives monthly budget-to-actual reports, no one reviews bank reconciliations or canceled check images to ensure all disbursements made were Board-approved and for proper Village purposes. Furthermore, there is no routine review of cash receipts activity by someone independent of the collections process. Lastly, the Board did not annually audit the Clerk-Treasurer's annual financial report and supporting records.

1 New York State Village Law, Sections 4-408 and 5-524

2 The Mayor receives a complete backup of all accounting transactions and reports from the Village's accounting software. He reviews the budget-to-actual report, vendor listings and balance sheets.

The Clerk-Treasurer provides the Board with claims to audit and approve at monthly Board meetings. While Board members told us that they review all Village claims, the Clerk-Treasurer did not list all the claims provided to the Board on the Board-approved abstract. Instead, she generally listed only those claims entered into the software on the meeting day; she did not list claims entered into the system in between meeting dates. During the audit period, the Board-approved abstracts only included 1,060 out of 2,149 claims, or 49 percent of the total number of claims. These claims represent 35 percent of the total dollar amount of claims, or \$662,845 of \$1,911,122. Furthermore, the Board meeting minutes did not contain sufficient detail of the claims audited by the Board. As a result, there is no assurance that the Board audited all claims.

We tested 78 receipts totaling \$47,516³ and 159 checks and electronic transfers⁴ totaling \$209,600 to determine whether receipts were deposited in a timely manner and disbursements were for proper purposes. We also tested 31 payroll checks totaling \$19,460 to determine whether payroll disbursements were at Board-approved rates and deductions were made appropriately. We found minor exceptions, which we communicated to Village officials.

Village officials told us that they trust the Clerk-Treasurer and Deputy and were unaware of the annual audit requirement. The failure to properly oversee the Clerk-Treasurer's duties and properly audit claims and annual reports diminishes the Board's ability to monitor financial operations. This increases the risk that errors and irregularities could occur and remain undetected and uncorrected. We provided the Board with annual audit guidance available in the OSC publication titled *Fiscal Oversight Responsibilities of the Governing Board*.⁵

Employees Did Not Follow Compensatory Time Guidelines

The Village's overtime guidelines allow department heads to earn comp time for time worked in excess of their regular scheduled work hours. The guidelines also limit accumulated comp time to 80 hours, with any excess to be liquidated at the end of each month. Furthermore, final disposition of comp time will be made in a manner mutually agreeable to the Board and employees.

Four Village employees accrued and used comp time during the audit period. Two employees were entitled to the comp time – Department of Public Works (DPW) Superintendent and Clerk-Treasurer – and two DPW employees accrued and used comp time they were ineligible for because they were not department heads. As of July 22, 2018, the Clerk-Treasurer had accrued nearly 870 hours of comp

3 Real property taxes – 40 receipts totaling \$34,970; water and sewer – 32 receipts totaling \$11,970; building permits – six receipts totaling \$576.

4 See our methodology in Appendix C for more information.

5 http://www.osc.state.ny.us/localgov/pubs/lmg/fiscal_oversight.pdf

time in excess of 80 hours, or approximately \$23,600 at her current pay rate.⁶ Furthermore, the two employees ineligible for comp time accrued over 90 hours of comp time, or approximately \$1,900 at their current pay rates.

Except for the Mayor, Village officials were unaware of the overtime guidelines and were unable to locate them until our audit fieldwork was complete. The Mayor stated he occasionally reviewed accrual records. However, there is no written documentation demonstrating there was a review process in place, or indicating when the review occurred.

Village officials' failure to periodically monitor and enforce their overtime policy led to employees taking paid time off when they were not entitled to it or accruing significant comp time balances without Village officials' knowledge.

What Do We Recommend?

The Board should:

1. Segregate the Clerk-Treasurer's duties or implement compensating controls such as providing additional oversight. Additional oversight can include, but is not limited to, reviewing bank reconciliations and comparing canceled check images to the Board-approved abstracts.
2. Annually audit, or cause an audit of, the Clerk-Treasurer's annual financial report and supporting records.
3. Monitor and enforce policies governing comp time leave accrual that address the accrual, use and payout of comp time.
4. Adjust employees' time records so that they are in compliance with the comp time policy.

The Clerk-Treasurer should:

5. Ensure the abstract of audited claims includes all claims against the Village since the last Board meeting.

⁶ We note that this report does not address whether such individuals are subject to the Federal Fair Labor Standards Act (FLSA). The Board may wish to review the requirements of the FLSA concerning compensatory time with the Village's legal counsel and, if necessary, consult with the U.S. Department of Labor to assess whether the Village is consistent with the provisions of the FLSA.

Appendix A: Response From Village Officials

JOHN J. BALLIETT, TRUSTEE
LAWRENCE J. CAZA, TRUSTEE
JEFFREY PALMER, TRUSTEE
MARK WOOD, TRUSTEE

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JOHN J. BORST, MAYOR

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December 6, 2018

Anne Singer, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Re: Response to draft audit findings

Dear Ms. Singer,

The Village of Schoharie has reviewed the draft audit findings prepared by the Office of the State Comptroller. We generally concur with those findings except for the magnitude and validity of the outstanding balance of accumulated compensatory time for the Clerk-Treasurer. The three (3) key findings and recommendations resulting from the audit generally include: implement compensating controls to provide better oversight of financial transactions; perform, or have performed, an annual audit (in conformance with NYS Village Law) of the treasurer's annual financial report; and monitor and enforce compensatory time policies.

See
Note 1
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The Board routinely reviews abstracts and underlying bills at each monthly meeting and did not realize that, for the audit period, the Deputy Clerk included only a portion of the actual monthly bills on the abstract. That deficiency was corrected immediately and abstracts now include all expenditures for the entire period between meetings. In addition, compensating controls were implemented when the Board adopted a procedure whereby at each monthly meeting we routinely review and initial all bank statements, cancelled check images; cash receipts records and bank reconciliations.

With regard to the legal requirement for the Village Board to audit, or have audited, the treasurer's annual financial report, we agree to implement such a procedure in compliance with NYS Village Law.



The audit's draft report includes recommendations to monitor and enforce policies governing comp time leave accrual and to adjust employee's time records so that they are in compliance with the comp time policy. The Board is in the process of reviewing current employee-related policies and procedures and is in the early development of a new employee manual which, among other things, will also address comp time issues.

With regard to the audit's quantification of the Clerk-Treasurer's accrued comp time hours and valuation, the Village wishes to verify the nature and validity of such comp time hours and thus, the amount of any appropriate compensation. It appears the comp time amount represents an accumulation over 12 years of employment. We know that the Clerk worked many hours in excess of her regular work hours when she was first hired as the financial, utility billing and many other functions were converted from a manual to computer-based format. In addition, the workload in excess of regular hours following Hurricane Irene in 2011 was tremendous and, in many aspects, continues today. We do believe the Clerk's quantification of comp time accumulation has certain validity but we are not sure of the appropriate amount. The Board, in conjunction with the Clerk-Treasurer, will conduct a review and analysis of her accumulated comp time and determine an appropriate amount and the associated compensation. We will also review and adjust all employee time records to bring them into compliance with the Village's comp time policy.

We want to thank the Office of the State Comptroller's audit team for their formal recommendations in the draft audit and also for their insight and informal suggestions for improving some financial functions in the Village office.

If you have any questions or need additional information please contact me.

Sincerely,

John Borst, Mayor

Appendix B: OSC Comment on the Village's Response

Note 1

The Clerk-Treasurer's leave record was the only source available to us which showed compensatory leave she had accrued. We recalculated a test month of leave accruals and determined that she correctly calculated the accrual and use of compensatory leave based on her timesheets. Because the Board was unaware of the Village's compensatory time policy and did not periodically monitor employees' leave accrual records, it did not know that the Clerk-Treasurer's accrual exceeded the compensatory time allowance in the Village's policy.

Appendix C: 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 reviewed transaction documentation to gain an understanding of the receipts and disbursements processes and any oversight provided.
- We compared all 24 Board-approved abstracts during the audit period to transaction data from the accounting system to determine how many transactions were not listed on abstracts presented to the Board.
- We reviewed Village meeting minutes to determine whether they contained specific documentation about which claims were audited by the Board.
- We randomly tested 78 real property tax, water and sewer, and building permit receipts totaling \$47,520 to determine whether they were deposited intact and in a timely manner by tracing them to deposit compositions and bank statements.
- We randomly selected 72 checks and electronic fund transfers totaling \$193,800 and traced them from canceled check images and bank statements to abstracts and supporting documentation to determine whether they were Board-approved and for proper Village purposes.
- We judgmentally selected 87 checks totaling \$15,800 written to Village officials and personal vendor payments and traced them from canceled check images to abstracts and supporting documentation to determine whether they were Board-approved and for proper Village purposes.
- We randomly selected the month of August 2016 and tested all 31 payroll transactions totaling \$19,460 to determine whether wages were set at Board-approved rates and deductions were made properly.
- We interviewed Village officials and reviewed Village policies related to leave accruals to determine how Village employees track and use comp time.
- We reviewed the latest leave accrual balances to determine the comp time liability for Village employees.

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 D: 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/lgli/pdf/cybersecurityguide.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

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