



# Village of Chaumont

## Internal Controls Over Financial Operations

### Report of Examination

Period Covered:

June 1, 2008 — August 31, 2009

2010M-206



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>EXECUTIVE SUMMARY</b>	3
<b>INTRODUCTION</b>	5
Background	5
Objective	5
Scope and Methodology	6
Comments of Local Officials and Corrective Action	6
<b>CASH RECEIPTS AND DISBURSEMENTS</b>	7
Recommendations	9
<b>RECORDS AND REPORTS</b>	10
Accounting Records and Monthly Reports	10
Annual Audit	11
Annual Financial Report	12
Recommendations	12
<b>PAYROLL</b>	14
Segregation of Duties	14
Authorized Wage Rates	15
Payroll Records and Approval	16
Payroll Tax Reporting	17
Recommendations	18
<b>USER CHARGES</b>	19
Segregation of Duties	19
Water and Sewer Rates	21
Penalty Rates	21
Recommendations	21
<b>APPENDIX A</b> Response From Local Officials	23
<b>APPENDIX B</b> Audit Methodology and Standards	25
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	28
<b>APPENDIX D</b> Local Regional Office Listing	29

# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

December 2010

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Village Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of Village of Chaumont entitled Internal Controls Over Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Village of Chaumont (Village) is located in the Town of Lyme in Jefferson County and has a population of about 590. The Board of Trustees (Board) is responsible for the general oversight of the Village's operations. The Mayor, who is a member of the Board, is the chief executive officer and the Clerk-Treasurer is the chief fiscal officer. As the chief fiscal officer, the Clerk-Treasurer is responsible for the custody of Village moneys, maintaining appropriate accounting records, and preparing monthly and annual financial reports. The Clerk-Treasurer also serves as the Clerk of the Board.

The Village's 2009-10 general fund budget was approximately \$250,000 and was funded primarily by real property taxes and sales tax. The water and sewer fund budgets of \$161,604 and \$ 158,350, respectively, were funded by water and sewer rents.

#### **Scope and Objective**

The objective of our audit was to review the internal controls over financial operations for the period June 1, 2008 to August 31, 2009. We expanded our review of payroll tax reporting to cover the period from January 1, 2007 to December 31, 2009. Our audit addressed the following related questions:

- Are internal controls over the cash receipts and cash disbursements process appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over records and reports appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over payroll expenditures appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over the accounting, recording, billing and collecting of user fees adequate?

#### **Audit Results**

The Board needs to improve its oversight of Village operations. Because the Board has not established policies and procedures that adequately segregated the Clerk-Treasurer's duties, internal controls need to be improved for cash receipts and disbursements, payroll, and user charges. The Board does not receive adequate periodic financial reports necessary for making informed financial decisions and has failed to audit the records and reports of the Clerk-Treasurer, as required by law. The Clerk-Treasurer

has not ensured that accounting records are accurate and up-to-date, that the annual financial report is filed in a timely manner, and that payroll taxes are remitted in a timely manner.

The Board has not developed comprehensive written cash receipts and cash disbursements policies and procedures, including provisions to segregate the Clerk-Treasurer's cash receipts and disbursement duties or to implement compensating controls. Although our review of cash receipts and disbursements did not identify any significant exceptions, without adequate segregation of duties, the risk is increased that funds could be misappropriated without detection or correction.

The Board did not ensure that the Clerk-Treasurer prepared the 2006 through 2009 annual financial reports in a timely manner and did not audit or arrange for an audit of the Clerk-Treasurer's books and records. The Board only receives an oral monthly financial report of cash balances in the bank. The Board did not require the Clerk-Treasurer to provide them with a periodic comparison of actual revenues and expenditures with related budget estimates. In addition, the Board did not take any action to ensure that the Clerk-Treasurer prepared monthly bank reconciliations to help assure that cash balances reported in the monthly report agreed with the adjusted balances reported by the bank.

The Board has not established any written policies and procedures to describe employee responsibilities in processing and distributing payrolls and has not developed formal requirements for timekeeping and supervisory approval of employees' time worked. The Board failed to provide specific guidance, and failed to segregate duties for payroll processing. In addition, wage rate increases were not properly documented in the Board minutes. Although we did not find significant exceptions in our review of payroll disbursements to officers and employees, the lack of guidance regarding processing payroll payments could lead to irregular activities occurring and remaining undetected. Additionally, the Clerk-Treasurer failed to remit payroll taxes in a timely manner to the Internal Revenue Service (IRS) and New York State Department of Taxation and Finance which resulted in interest and penalties to the IRS and Department of Taxation and Finance of approximately \$3,000.

Finally, Village officials need to improve internal controls over user charges. Specifically, the Clerk-Treasurer's duties are not properly segregated, and Village officials do not provide adequate oversight as a compensating control. As a result, the Village has been charging water and sewer rents and charging late penalty charges that may exceed the Board-authorized rates.

### **Comments of Local Officials**

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated they have begun to take corrective action.

# Introduction

## Background

The Village of Chaumont (Village) is located in the Town of Lyme in Jefferson County and has a population of about 590. The Village is governed by an elected Board of Trustees (Board) which comprises a Mayor and four Trustees, all of whom are elected for two-year terms. The Village provides water, sewer, refuse, snowplowing, brush removal, police protection and recreation services to its residents. Water and sewer user charges are billed every two months.

The Board is responsible for the general oversight of the Village's operations. The Mayor, who is a member of the Board, is the chief executive officer. The Board is the legislative body responsible for managing Village operations such as establishing and monitoring a system of internal controls, adopting the annual budget, monitoring the finances and overseeing the work of department heads.

The Clerk-Treasurer is the chief fiscal officer and Clerk of the Board. As the chief fiscal officer, the Clerk-Treasurer is responsible for the custody of Village moneys, maintaining appropriate accounting records, and preparing monthly and annual financial reports. As Clerk of the Board, the Clerk-Treasurer is charged by Village Law with custody of the Village corporate seal, books, records and papers and all of the Board's official reports and communications, and is responsible for keeping a complete and accurate record of the Board's proceedings. Additionally, the duties of the Clerk-Treasurer include payroll processing and water and sewer user billing. Although the Board is primarily responsible for the effectiveness and proper functioning of the Village's internal controls, the Mayor and Clerk-Treasurer also share the responsibility for ensuring that internal controls are adequate and working properly.

The Village's 2009-10 general fund budget was approximately \$250,000 and was funded primarily by real property taxes and sales tax. The water and sewer fund budgets of \$161,604 and \$158,350, respectively, were funded by water and sewer rents.

## Objective

The objective of our audit was to review the internal controls over financial operations. Our audit addressed the following related questions:

- Are internal controls over the cash receipts and cash disbursements process appropriately designed and operating effectively to adequately safeguard Village assets?

- Are internal controls over records and reports appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over payroll expenditures appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over the accounting, recording, billing and collecting of user fees adequate?

## Scope and Methodology

We reviewed the internal controls over financial operations for the period June 1, 2008 to August 31, 2009. We expanded our review of payroll tax reporting to cover the period from January 1, 2007 to December 31, 2009.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

## Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated they have begun to take corrective action.

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 forwarded to our office within 90 days, pursuant to Section 35 of the 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 this plan available for public review in the Clerk-Treasurer's office.



## Cash Receipts and Disbursements

An effective system of internal controls consists of comprehensive policies, practices and procedures which adequately address issues such as the responsibilities for collecting, recording, and depositing cash; the disbursement of Village money by check; prescribed procedures for executing cash and wire transfers; and reviewing and approving journal entries. It is important for policies and procedures to also provide for the segregation of duties to the extent possible so that someone other than the person receiving and recording cash receipts and disbursements is responsible for reconciling bank accounts or preparing and making bank deposits or disbursing cash. When it is not practical to segregate duties because of limited staff resources, it is essential for the Board to establish compensating controls. Such compensating controls could include having a member of the Board receive the bank statements and canceled checks directly from the bank, review them, compare deposits and canceled checks to other information the Board member is aware of and/or recorded in the Clerk-Treasurer's records and later review the bank reconciliations. Also, the Board could require dual signatures on checks and a member of the Board could periodically review receipting transactions and compare them to bank deposits.

The Board has not developed comprehensive written cash receipts and cash disbursements policies and procedures, including provisions to segregate the Clerk-Treasurer's cash receipts and disbursement duties, or provide compensating controls. Although our review of cash receipts and disbursements did not identify any significant exceptions, without adequate segregation of duties, the risk is increased that funds could be misappropriated without detection or correction.

Cash Receipts — Village officials have not provided for adequate segregation of duties for cash receipts transactions. The Clerk-Treasurer receives payments for real property taxes, water and sewer user charges and miscellaneous receipts,<sup>1</sup> and enters all billing and receipt transactions for taxes and water and sewer billings in the computerized tax and user charge systems. She prepares all the bank deposits and takes the deposits to the bank. The Clerk-Treasurer told us that she provided the bank statements to the former Mayor to review and initial. However, bank statements from only two of the 14 months in our audit period contained his initials. A review of bank statements and periodic comparisons of bank statement

<sup>1</sup> Miscellaneous receipts include building permit fees, bingo fees and gross utility taxes.



deposits with cash receipt records by an independent party could help detect errors or fraud associated with cash receipts. No other Village official independently reviews or confirms the Clerk-Treasurer's cash receipts work.

Because the Clerk-Treasurer controls all aspects of cash receipts duties, she could misappropriate Village funds and conceal these transactions by not recording a collection or recording it for a lesser amount and making adjustments in the tax and user systems. Because no one routinely reviews the Clerk-Treasurer's cash receipts work, there is little likelihood that this would be detected. We performed tests to verify that receipts were properly deposited.<sup>2</sup> We did not find any exceptions during our review. However, because the Village has not adequately segregated cash receipts duties or established compensating controls, the risk is increased that errors or irregularities could occur and not be detected or corrected.

Cash Disbursements — Village officials have also not adequately segregated duties over cash disbursements. The Clerk-Treasurer enters disbursements into the computerized accounting system in order to generate abstracts and checks. She also signs checks, makes cash transfers without prior approval or confirmation by another official, and receives bank statements directly from the bank. Village officials did have some compensating controls in place. For example, the Board approves audited claims for payment. The Mayor or the Deputy Mayor co-signs checks over \$1,000 (including the Clerk-Treasurer's pay check), and the former Mayor performed very limited reviews of bank statements.<sup>3</sup> Other than these procedures, cash disbursement procedures were not independently reviewed or confirmed by the Mayor or a Board member and it is likely that these measures would not have detected an improper check or cash transfer initiated by the Clerk-Treasurer.

We reviewed 72 non-payroll disbursements totaling \$126,105, 28 payroll disbursements totaling \$45,036 and \$108,603 in cash transfers. While we did not find any significant exceptions, because Village officials have not adequately segregated cash disbursement duties or provided sufficient oversight, the risk is increased that errors or irregularities could occur and not be detected or corrected.

Subsequent to the completion of our fieldwork, we were informed by the new Mayor that she is regularly receiving and reviewing bank

<sup>2</sup> See Appendix B for details of the testing.

<sup>3</sup> The bank did not return canceled checks to the Village during the last five months of our audit period. The bank did resume providing the Village with canceled checks during our onsite fieldwork.

statements. However, she has not reviewed canceled checks as part of her oversight process.

## **Recommendations**

1. The Board should adopt formal policies and procedures governing cash receipts and disbursements.
2. The Board should segregate the duties of the Clerk-Treasurer or establish additional compensating controls to routinely monitor and review the Clerk-Treasurer's work. Compensating controls could include periodic reviews of bank statements and canceled checks, bank reconciliations and the accounting records.
3. The Board should require that cash transfers initiated by the Clerk-Treasurer be confirmed by the bank with an individual separate from the original transfer request.

## Records and Reports

Board members, individually and collectively, are the Village's fiscal stewards who are responsible for directing and overseeing the Village's financial activities. It is important for the Board to establish internal controls to help ensure that critical oversight is provided and those individual responsibilities are established and met. Such controls include an annual audit of the Clerk-Treasurer's financial records and reports, and ensuring the timely generation and submissions of the annual financial report. The Clerk-Treasurer is responsible for performing the basic accounting functions including maintaining adequate accounting records that provide the basis for periodic reports to the Board. The Clerk-Treasurer is also responsible for preparing and filing the annual financial report with the State Comptroller and in the Village Office following the close of the fiscal year, as required by Village Law and General Municipal Law (GML).

The Board did not provide proper oversight of the Clerk-Treasurer's work when it failed to audit or cause to be audited the records and reports of the Clerk-Treasurer, as required by Village Law. In addition, the Board did not ensure the timely submission of the Village's annual financial report because the Clerk-Treasurer was not provided any instructions or deadlines for the process of preparing and filing the report. The submission of the annual report is complicated by the fact that the Clerk-Treasurer does not maintain complete and accurate accounting records and the Village's computerized accounting system cannot produce accurate reports of the Village's activity.

### **Accounting Records and Monthly Reports**

The Clerk-Treasurer must maintain complete and accurate accounting records, including cash receipts and disbursements journals providing a chronological list of all cash transactions, and revenue and expenditure ledgers classifying individual related transactions according to the accounts in the annual budget. The individual entries recorded in these journals and ledgers need to be recorded in the appropriate control accounts in the general ledger. These records are the basis for monthly reports presented to the Board. The monthly reports must include cash balances, cash receipts collected and cash disbursements made during the month, comparisons of actual revenues and expenditures to amounts estimated in annual budgets, and a bank reconciliation with copies of the bank statements.

The Clerk-Treasurer did not maintain complete and accurate accounting records, and did not generate monthly financial reports for the Board and public to review. The Clerk-Treasurer informed us that, during the audit period, she had problems with the computerized

accounting system. Check information did not download correctly into the financial program in order for her to run financial reports out of the system. As a result, she only used the financial system to generate abstracts and checks. The Clerk-Treasurer also informed us that she stopped recording cash receipt entries and journal entries in the computerized accounting system. Because the Clerk-Treasurer does not maintain adequate records, she was not able to properly track the Village's cash balances or revenues and expenditures. However, the Clerk-Treasurer maintains separate records using other software programs for payroll, property tax receipts, and water and sewer rent billings and receipts that are functioning properly. Due to the deficiencies in the accounting records, the Clerk-Treasurer did not maintain complete cash control accounts and did not reconcile the ending balances on the bank statements to the accounting records (bank reconciliations) to ensure that the records are accurate.

During our audit period, instead of providing the Board complete and accurate monthly financial reports, the Clerk-Treasurer gave the Board periodic oral reports of the cash balance in the general, water and sewer bank accounts. The Clerk-Treasurer did not provide the Board with cash receipts collected and disbursements made during the month, or budget to actual revenues and expenditures amounts which would help the Board to properly monitor and manage Village finances. Without complete and accurate accounting records and reports, the Board cannot properly assess the Village's financial operations and financial condition on an ongoing basis. In addition, there is an increased risk that improper cash transactions could occur and remain undetected and uncorrected.

## **Annual Audit**

The Board did not audit or cause to be audited the Clerk-Treasurer's financial records, as required. To satisfy this requirement, the Board must either perform the audit, have a Village officer or employee perform this function, or retain the services of an independent auditor to perform this function. The annual audit helps the Board fulfill its fiscal oversight responsibilities and provides an added measure of assurance by providing Village officials with an opportunity to assess the reliability of the Village's books, records, and supporting documents on which it relies in making management decisions. Audit results can also help the Board to evaluate fiscal practices and monitor the performance of the Clerk-Treasurer who has been entrusted with recordkeeping and other financial responsibilities.

The former Mayor was not aware of the requirement of an annual audit of the books of the Clerk-Treasurer. The Board's failure to perform an annual audit diminishes its ability to effectively monitor the Village's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected.

## **Annual Financial Report**

The Clerk-Treasurer, as the chief fiscal officer, is responsible for filing the Village's annual financial report with the State Comptroller and in the Village office following the close of the fiscal year. It is important that the Village have procedures to ensure that the annual financial report is prepared and filed in a timely manner and is an accurate representation of the Village's financial position and results of operations. Because the usefulness of financial information depends on the timeliness of preparation, the annual financial report must be filed within the time limit prescribed by Village Law and GML.

The Clerk-Treasurer has not prepared and submitted the required annual fiscal reports for the fiscal years ending May 31, 2006 through May 31, 2009. After our onsite fieldwork, the Clerk-Treasurer submitted a report for the fiscal year ended May 31, 2010.

The Board did not provide the Clerk-Treasurer with instructions or deadlines for preparing and filing the annual financial report. The Clerk-Treasurer informed us that she was late in the filings because she was overwhelmed with all the duties of her position. Annual financial reports are essential for the Board to provide adequate oversight over Village operations and monitor the Village's financial condition. The failure to file accurate and timely annual financial reports with the State Comptroller or the Board is indicative of problems with the Clerk-Treasurer's recordkeeping and denies the Board and the public a primary fiscal tool to monitor the Village's financial affairs.

## **Recommendations**

4. The Board should monitor the Clerk-Treasurer's financial activities by requesting and reviewing monthly financial reports, and ensuring that the Clerk-Treasurer maintains current and accurate accounting records. These reports should include cash balances, cash receipts collected and cash disbursements made during the month, comparison of actual revenue and expenditures to budget and a bank reconciliation with copies of the bank statements.
5. The Clerk-Treasurer should maintain accounting records in an accurate and timely manner. These records should include listings of cash receipts and cash disbursements, each fund's revenue and expenditure ledgers and general ledgers. Each fund's recorded cash balance in the general ledger should be reconciled to the bank balance monthly.
6. The Clerk-Treasurer should contact the computerized accounting system vendor to address any issues.
7. The Board should take steps to ensure that an appropriate and a meaningful audit of the accounting records and annual financial report of the Clerk-Treasurer is performed annually to provide an

added measure of assurance that transactions have been properly recorded and reported, and that cash has been accounted for properly.

8. The Board and Clerk-Treasurer should implement annual financial reporting system procedures to help ensure that the Village's annual financial report is filed with the State Comptroller and the Board in a timely manner. A copy of the annual financial report should be on file at the Village Office and available for public inspection.

## Payroll

The primary objective for internal controls over payroll processing is to ensure that employees are properly paid the wages and salaries to which they are entitled. An effective payroll processing system consists of written policies and procedures that describe employee responsibilities in preparing and disbursing payroll. Detailed policies and procedures help ensure that duties to the extent possible are properly segregated, establish requirements for timekeeping and supervisory approval of employees' time worked, and require written Board authorization for salaries, wages and fringe benefits. Management oversight is also an essential component of any internal control system. The Village has about 15 officers and employees and budgeted about \$127,375 for salaries and wages in the 2009-10 fiscal year.

The Board has not established any written policies and procedures to describe employee responsibilities for processing and distributing payrolls and has not developed formal requirements for timekeeping and supervisory approval of employees' time worked. The Board failed to provide specific guidance, and failed to segregate duties for payroll processing. In addition, wage rates were increased without evidence of proper authorization in the Board minutes. Although we did not find significant exceptions in our review of payroll disbursements to officers and employees, the lack of guidance regarding processing payroll payments could lead to errors or irregularities occurring and remaining undetected.

### Segregation of Duties

To help reduce the risk of fraud and misconduct, it is important to segregate payroll functions so that no one employee performs all aspects of a payroll transaction. If it is not feasible to adequately segregate duties over the entire payroll process, Village officials must implement compensating controls, such as additional procedures or reviews, to limit the risk.

The Board has not adequately segregated duties over the payroll process. The Clerk-Treasurer is directly responsible for the entire payroll process, including adding new employees into the computerized payroll system, inputting and updating salaries, inputting the bi-weekly payroll and signing and distributing paychecks. The former Mayor or Deputy Mayor did provide a measure of compensating controls by certifying payroll reports and providing the second signature required on the Clerk-Treasurer's pay check. However, no one regularly reviewed canceled checks from the bank during our audit period and the payroll reports that the former Mayor or Deputy



Mayor certified only showed the gross and net wages along with deductions. The reports did not show the hours worked and rate of pay used to calculate the gross wages. In addition, no one compared the salary and wage rates paid to the Board-authorized amounts.

Village officials could provide additional oversight of the Clerk-Treasurer by having someone other than the Clerk-Treasurer review canceled checks returned by the bank and strengthening the payroll certification process by using payroll reports that show the number of hours worked and salary and wage rates. When certifying the payroll, the Mayor or Deputy Mayor could periodically compare the compensation paid to officers and employees with Board-approved amounts and the reported hours worked with supporting time records. At the end of our field work, the Clerk-Treasurer began reporting the rate of pay and hours worked for payroll certification.

Because the Board has not properly segregated the Clerk-Treasurer's payroll duties or provided sufficient oversight, the Clerk-Treasurer could initiate and process an unauthorized payroll transaction or make errors in the payrolls without timely detection and correction.

### **Authorized Wage Rates**

The Board must authorize and approve all salaries and wages paid, and employee benefits provided to employees. Village Law also requires that the annual budget include a schedule of salary and wage information by office or position of employment. Documenting the authorization in writing communicates the Board's intent to the employees who execute the payroll procedures and provides public transparency of the Board's intentions.

Board minutes do not list all new hires, nor do the minutes include the pay rates to be paid to new employees. For example, a laborer hired in 2008 and lifeguards hired in 2009 were not identified in the minutes nor were their salaries or the salaries of lifeguards hired in 2008 listed in the minutes. Salaries paid to the Mayor, Trustees, part-time police officer and part-time police officer/dog warden agreed with line item appropriations contained in the budgets for 2008-09 and 2009-10, but Village officials could not provide us with salary and wage schedules or other documentation of Board-approved salaries and wages paid to the Clerk-Treasurer, zoning officer, laborer, waste water treatment plant operator, and lifeguards. Village officials indicated that salary and wage rates are determined in the budget process and the Clerk-Treasurer is part of that process, so she knows how much to pay Village employees.

The Deputy Mayor reviewed a listing of rates paid to Village employees for the 2008-09 and 2009-10 fiscal years that we compiled from payroll records. The Deputy Mayor indicated that the rates

seemed reasonable. Village officials told us that they were not aware that Board-approved wages must be documented in the minutes or that the salary schedule and wage information must be included in the budget. Without proper documentation of Board-approved wages and salaries, employees could be paid a different amount than the Board intended.

## **Payroll Records and Approval**

An important aspect of internal controls over payroll processing requires that employees complete and sign individual time records. Good internal controls also require that the employee's supervisor approves each time record. These time records represent claims against Village resources and charges to the respective departments. Time records are used to document the hours and days worked and to certify that the recorded time is correct and accurately shows the time worked on the job. Employees must submit their time records to their supervisors for approval to further attest to the accuracy of those time records. These certified and approved time records serve as supporting documentation for payroll registers and can be reviewed if errors occur in payroll processing. The absence of formal timekeeping procedures may leave a payroll system susceptible to errors, fraud or abuse.

The Board has not established policies or procedures that address the maintenance of time records and the supervisory approval of those records. As a result, employee time records do not contain evidence of supervisory approval and time records were not available for some hourly employees during our audit period.

Time records are prepared by the waste water treatment plant operator, laborer, and lifeguards. However, the time records do not contain any supervisory approval and records for three pay periods were not on file with the Clerk-Treasurer. The Clerk-Treasurer recorded her work hours on a calendar, but she only provided us with a calendar showing her hours for the period from April 2009 to August 2009 and there was no supervisory approval of the hours she worked. The zoning officer calls in his total hours worked once a month to the Clerk-Treasurer and she records his time directly in the computerized payroll system. No time records showing the days and hours worked by the zoning officer were available. Because of the insufficient controls over time records, the Village is at increased risk of compensating employees for hours to which they are not entitled.

As part of our audit, we compared available time records with payroll records for those employees who maintained time records. Our testing included six time records for the waste water treatment plant operator representing wages paid of \$8,021, eight time records for the

laborer position<sup>4</sup> representing wages paid of \$9,032, four time records for the head lifeguard representing wages paid of \$967, and five time records for the lifeguards representing wages paid of \$1,904. Our testing disclosed no significant exceptions.

Subsequent to the end of our field work, Village officials informed us that the waste water treatment plant operator and laborer time records are now approved by a supervisor.

## **Payroll Tax Reporting**

All employers are required to withhold appropriate State and Federal taxes from employee earnings. Payroll tax reporting and remitting must be performed in accordance with applicable State and Federal regulations. The failure to comply with these regulations can result in the employer being charged substantial interest and penalties.

The Clerk-Treasurer did not remit payroll withholdings<sup>5</sup> to the Internal Revenue Service (IRS) when due for May 2007 to December 2007 totaling \$19,382. Starting in March 2008, the Clerk-Treasurer resumed paying the IRS for the monthly taxes due for January 2008 forward. In September 2008, she paid the back due amount of \$19,382 plus interest and penalties of approximately \$1,000, net of subsequent refunds. In addition, the Clerk-Treasurer failed to remit to the New York State Department of Taxation and Finance for payroll withholding due from April 2007 to December 2009. On March 3, 2010, the Clerk-Treasurer paid the Department of Taxation and Finance \$11,472 for the April 2007 to December 2009 employee withholdings. The Village had to pay interest and penalties of about \$2,000 to the Department of Taxation and Finance due to these late tax remittances.

The Clerk-Treasurer told us she did not report and remit payroll taxes to the IRS because she had too many job duties and she got behind in her work. The Clerk-Treasurer also failed to pay the Department of Taxation and Finance for the same reason and did not resume payments in 2008, as she did with the IRS, because she stopped receiving the quarterly filing form from the State. The former Mayor and the Board were not aware that filings had not been remitted.

As a result, the Village was assessed approximately \$3,000 in interest and penalties by the IRS and Department of Taxation and Finance for the late payment of taxes.

<sup>4</sup> Two individuals were employed in this position during our audit period.

<sup>5</sup> The total amount of Federal, Social Security and Medicare taxes from employees' gross pay and the total amount of the employer's share of Social Security and Medicare taxes.

## **Recommendations**

9. The Board should develop written policies and procedures for preparing and disbursing payroll to provide for adequate segregation of duties and appropriate guidance to employees concerning payroll responsibilities.
10. The Board should set the amount of wages paid to employees at the time of hiring. The Clerk-Treasurer should record this Board action in the official Board minutes.
11. The Board should require that the annual budget include a schedule of salary and wage information as set forth in Village Law.
12. The Board should require all employees to complete individual time records and all time records should be approved and signed by each employee's immediate supervisor or a Board member.
13. The Clerk-Treasurer should accurately prepare and file in a timely manner all required payroll reports and deposits with both the IRS and the Department of Taxation and Finance.

## User Charges

A good system of internal controls for water and sewer user charges consists of policies and procedures that outline duties and responsibilities, including segregation of duties. If staff is limited, sufficient compensating controls must be in place. These compensating controls could include the Board taking a more active role in providing a detailed supervisory review of the related activities, such as having water and sewer billing and adjustment registers being authorized by the Board or another designated official independent of cash collection. Proper internal controls over water and sewer charges will help ensure that they are calculated and billed according to actual usage.

The Board needs to improve internal controls over user charges. Specifically, the Clerk-Treasurer's user charges duties are not properly segregated and the Board did not provide adequate oversight as a compensating control. As a result, the Clerk-Treasurer has been charging water and sewer rents and late payment penalty charges that may not adhere with the official Board-authorized rates.

### Segregation of Duties

Proper segregation of duties over the accounting, recording, billing and collection of water and sewer user charges can help to prevent and detect errors and irregularities. Proper segregation of duties exists when no single individual controls most or all phases of a transaction, and the work of one employee is independently verified in the course of another employee's regular duties. In instances where staff is limited, a detailed supervisory review of related activities could provide assurance that policies and procedures are properly followed, that billing adjustments are proper and documented, and that cash assets are accounted for accurately and are adequately protected.

The Clerk-Treasurer's duties related to user charges are not properly segregated. The Clerk-Treasurer is responsible for billing, collecting payment on accounts and recording the receipts information in the computerized billing system. Although the Clerk-Treasurer generates computerized billing and receipts reports, the Board or another designated official were not reviewing or approving these reports during our audit period. Subsequent to our inquiry, the Deputy Mayor began reviewing and signing off on the current billing registers.

In addition, the Clerk-Treasurer did not maintain water or sewer rents receivable control accounts.<sup>6</sup> These accounts must be maintained and

<sup>6</sup> A control account is a summary account that reflects the activity in all customer accounts and should have a balance equal to the total of all customer accounts.

periodically reconciled with the detailed customer accounts to help ensure the accuracy of the records and to detect errors or irregularities. Ideally, someone who is independent from the billing and collection process should be responsible for either reconciling the control and detail records or reviewing the reconciliations performed by the Clerk-Treasurer.

The Clerk-Treasurer has the ability to manipulate records prior to billing, such as lowering readings from actual use, not billing particular customer accounts, or deactivating an account without any other approval. In addition, the Clerk-Treasurer can make adjustments to accounts after the billing has been sent. The lack of review by someone independent of the billing and collection process does not provide Village officials with assurance that the Clerk-Treasurer has not made improper adjustments.

We reviewed 10 accounts from the November 2008 billing register totaling \$1,076, 10 accounts from the July 2009 billing register totaling \$1,425 based on a cross section of high and low water usage, 20 properties from the tax roll for three billing periods, three properties from new construction permits and eight key municipal officers and employees along with family members to determine if they were properly billed. We also reviewed the 20 properties selected from the tax roll to verify that account balances were properly calculated. We did not find any significant exceptions.

We also reviewed all accounts from the March 2009 billing period that did not have both a water and sewer usage charge to determine if they were billed properly. We determined that a multi-unit account was not billed at the correct rate for water usage. To determine if this was an individual exception or a system-wide problem, we then reviewed all 18 multi-unit accounts, totaling approximately \$2,519 from the July 2009 billing register. We found that seven of the 18 accounts were under-billed by a total of \$632.<sup>7</sup> Using only the minimum charge over six billing periods per year, this would result in the multi-unit accounts being under-billed by at least \$2,400 a year. This occurred because the Clerk-Treasurer had not changed the rates on multi-unit accounts when she changed the single unit rate. Due to the lack of policies and inadequate segregation of duties, without compensating controls, there is an increased risk that errors such as the this one or irregularities, such as inaccurate or incomplete accounting records, or the loss or misuse of cash could occur and not be detected and corrected, which would expose the Village to potential financial loss.

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<sup>7</sup> \$435 of this amount is from a senior citizen complex with multiple units.

## **Water and Sewer Rates**

The Clerk-Treasurer was not able to provide us with documentation showing the current water and sewer rents charged by the Village. The Village currently bills water and sewer rents six times a year. The Village was able to provide us with the water regulations listed in the Village code book dated July 25, 1986, that lists an initial rate billed semi-annually. The water rent currently billed is a different rate than the regulation authorizes. The sewer law book dated July 18, 2001, does not reference a rate to be charged.

The former Mayor said that the Board determines the water and sewer rates as part of the budgeting process and conveys this rate to the Clerk-Treasurer, but they do not adopt any formal resolutions or local laws to set the rates. Without proper documentation to verify the Board's intent, the Village may not be collecting the proper amount of water and sewer rents.

## **Penalty Rates**

The penalties charged by the Clerk-Treasurer for late payment of water and sewer charges do not agree with the penalties authorized by the Board according to the records the Clerk-Treasurer provided to us. The sewer law book authorized a \$20 penalty due 20 calendar days after the billing and provided that it be imposed for each 60-day billing cycle the bill is delinquent. The Village code book references under water regulations a "net" amount due if paid before the 21st day of the month in which it is due and a "gross" amount payable if the bill is not paid by the 21st day. It does not define what amounts are "gross" and "net." The Village bills for water and sewer charges together on one billing. Currently, the Village charges a \$10 penalty 30 days after the billing date for any unpaid accounts.

We reviewed unpaid amounts as of May 8, 2009 totaling \$35,983 to verify that they were charged a \$10 penalty 30 days after the billing date for any unpaid accounts. We found no significant exceptions.

## **Recommendations**

14. The Board should establish written policies and procedures that provide for the segregation of incompatible duties over the billing, collecting, accounting and recording of water and sewer charges. If segregating the incompatible duties is not feasible, the Board should take a more active role in providing a detailed supervisory review of the related activities.
15. The Clerk-Treasurer should establish and maintain receivable control accounts for water and sewer rents. These accounts should be periodically reconciled to the total of the individual customer accounts. The reconciliation should be performed by or, if that is not practical, reviewed by someone other than the Clerk-Treasurer.



16. The Clerk-Treasurer should ensure that water rates for multi-unit accounts are billed correctly.
17. The Board should formally authorize changes to water and sewer rates and related penalties, as prescribed by law.
18. Village officials should determine whether penalties rates charged on unpaid water and sewer balances are in compliance with the Board-approved rates.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

The local officials' response to this audit can be found on the following page.



## VILLAGE OF CHAUMONT

P.O. Box 297  
Chaumont, New York 13622  
Telephone (315) 649-2900  
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December 7, 2010

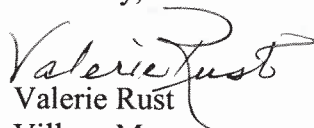
NYS Office of the State Comptroller  
Chief Examiner, Syracuse Regional Office  
State Office Bldg., Room 409  
Syracuse, N.Y. 13202

Dear Ms. Wilcox:

This is the Village of Chaumont's audit response following the draft audit review on November 16, 2010.

The Village Board generally agrees with the audit findings from the audit review of June 1, 2008 through August 31, 2009. The village clerk, board members and mayor have already begun to rectify some of the oversights found during the audit examination. We would like to state in this response that many of the oversights made were simply because the village board members were not aware of how to conduct some of the operations cited in the audit. The Village Clerk was appointed because the previous Village Clerk was terminally ill and because of this situation our clerk had no proper training and continued to perform the duties as they appeared to have been done before. This isn't an excuse but rather an opportunity to say that we feel this audit was beneficial and an education in how to effectively run our village's finances. We were appreciative of the recommendations and efforts provided to us. Your office staff is professional, courteous and helpful.

Sincerely,

  
Valerie Rust  
Village Mayor  
Village of Chaumont

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

Our overall goal was to assess the adequacy of the internal controls put in place by Village officials to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial records and reports, cash receipts and disbursements, procurement, claims processing, payroll and personal services, user charges and information technology.

During the initial assessment, we interviewed appropriate Village officials, performed limited tests of transactions and reviewed pertinent documents, such as Village policies and procedures manuals, Board minutes, and available financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected cash receipts and disbursements, records and reports, payroll, and user charges for further audit testing.

To accomplish the objective of our audit, our procedures included the following:

- We interviewed Village officials and employees, and reviewed Board minutes, Board policies and Village procedures to obtain an understanding of the Village's available records and reports, cash receipts and disbursements operations, payroll, and controls over the billing and collection of user charges.
- We reviewed the key control activities of the Village Office including the manner in which duties are assigned, checks are signed and disbursements and transfers are made.
- We traced State aid paid during the audit period in the amount of \$4,691 from the Office of the State Comptroller's payment report to the Village's duplicate receipt and the deposit on the bank statement.
- We compared the Village's 2008-09 tax roll, totaling \$105,086, with the amount of taxes collected and deposited, and returned to the County as unpaid. We also verified that the Village received payment from the County for the unpaid taxes and reviewed any adjustments made to the tax warrant.
- We traced all cash and wire transfers for the entire audit period totaling \$108,603 from Village bank statements to other Village bank accounts and one payment to the Department of Taxation and Finance (\$1,013).
- We reviewed miscellaneous cash receipts for the months of June and July 2008 totaling \$2,324. We traced all receipts from the cash receipt records (two-part, pre-numbered receipt book) to the deposits per the bank statements.

- We reviewed 72 non-payroll checks, totaling \$126,105, from the bank statements. We reviewed the front and back of the checks and traced them to approved abstracts.
- We reviewed 28 payroll checks, totaling \$45,036, from bank statements. We reviewed the front and back of the checks, and traced to payroll reports. This testing included payroll checks to key Village officials such as the Mayor and Clerk-Treasurer.
- We obtained the May 2010 bank statements and check abstracts and deducted the outstanding checks from the ending balances on the bank statement to come up with the approximate cash balances in the general, water and sewer funds at the end of the 2009-10 fiscal year in order to determine the reasonableness of the Village's financial condition.
- We reviewed time records for Village employees. We also reviewed documentation of compensation time earned and used during our audit period.
- We reviewed payrolls for selected quarters for timely filing and payment of payroll taxes and reports for State and Federal taxes and we reviewed the late filing penalties and interest charged to the Village for State and Federal taxes.
- We reviewed relevant rules and regulations adopted by the Board relating to water and sewer user charges.
- We reviewed current usage rates and penalties for water and sewer in the billing system and determined if they agreed to the rates and penalties authorized by the Board.
- We re-computed a sample of 10 billings each from two different billing periods, November 13, 2008 and July 16, 2009, totaling \$2,500 to ensure that the system was calculating billings properly.
- To verify the accuracy of the records, we sent confirmation letters to 25 water/sewer customers to confirm unpaid balances as of December 30, 2009.
- We compared the late fees from the late fee billing register for April 24, 2009 to the customer accounts with open balances listed in the May 8, 2009 billing register to verify that late fees

were added to customer accounts that were past due.

- We randomly selected 20 taxable and two non-taxable properties from the tax roll and three of four properties from the listing of new residential building permits and traced them to the user system billing records to determine if they were all being properly billed.
- We examined billing activity related to water and sewer user charges for eight select key Village officers and employees and family members to verify the accuracy of those billings.
- We traced water and sewer cash receipts from February 2009 totaling \$22,330 from the payment detail reports to the bank statement.
- We traced water and sewer user charges for unpaid amounts from May 2009, totaling \$10,090, from the billing register to the re-levy onto the 2009-10 tax roll.
- We traced non-cash credits in the water and sewer billing registers to the supporting documentation of the Board's approval.

We conducted our 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.

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Steven J. Hancox, Deputy Comptroller

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