



Village of Parish

Board Oversight

Report of Examination

Period Covered:

June 1, 2010 — March 31, 2012

2012M-240



Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
BOARD OVERSIGHT	5
Claims Audit	5
Annual Audit	7
Recommendations	8
APPENDIX A Response From Local Officials	9
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2013

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 Parish, entitled Board Oversight. 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 Village 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*

Introduction

Background

The Village of Parish (Village) is located in Oswego County with a population of 450. The Village Board of Trustees (Board) is the legislative body responsible for managing Village operations such as establishing and monitoring a system of internal controls, monitoring finances, and overseeing the work of Village officials. The Board includes the Village Mayor (Mayor), who serves as the chief executive officer, and four Trustees. The Village provides sewer services and general government support to its residents.

The Village Treasurer (Treasurer) is the chief fiscal officer and is responsible for the custody of Village moneys, maintaining appropriate accounting records, and preparing monthly and annual financial reports. The Village Clerk (Clerk) prepares the abstracts¹ of claims for the Board to audit.

The Village's 2010-11 expenditures were approximately \$153,000 in the general fund and \$183,000 in the sewer fund. These expenditures were primarily funded with revenues from local property and sales taxes, State aid, and user charges.

Objective

The objective of our audit was to review the Board's oversight of the claims and annual audit processes. Our audit addressed the following related question:

- Did the Board fulfill its oversight responsibilities by conducting an effective audit of non-payroll claims and performing an annual audit of the Treasurer's records?

Scope and Methodology

We examined the Board's oversight of the non-payroll claims audit process and the annual audit of the Treasurer's records and reports for the period June 1, 2010, to March 31, 2012.

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

¹ An abstract is a list of claims (bills or invoices submitted by vendors requesting payment for goods or services provided to the Village).

generally agreed with our recommendations and indicated they planned to initiate 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's office.

Board Oversight

The Board is responsible for oversight of the Village's operations and ensuring that procedures are in place to safeguard the Village's financial resources. This responsibility includes establishing a system of internal controls, which consist of policies and procedures that provide reasonable assurance that cash and other resources are properly spent. An integral part of an effective internal control system is a deliberate and thorough audit of claims. The Board should ensure that all claims are for valid Village expenditures and include evidence that the goods or services have been received, and that the Village purchases the desired quality and quantity of goods and services at the most favorable terms or lowest cost. The Board should also ensure that all claims are presented for audit and that no claims are paid prior to audit.² Another effective internal control is the annual audit of the Treasurer's records. An annual audit helps the Board fulfill its fiscal oversight responsibilities by providing an opportunity to assess the reliability of the books, records, and supporting documents of the Treasurer.

The Board did not ensure that all claims were audited, were audited prior to payment, and did not properly audit all claims to ensure they included evidence of receipt and price quotes. As a result, 20 claims totaling \$32,326 were paid even though evidence of Board approval was not documented in the Board minutes, and five claims totaling \$6,258 were inappropriately paid in advance of Board audit. Although we did not identify any instances where goods and services were not received, two claims totaling \$4,099 lacked quotes as required by the Village's procurement policy. In addition, the Board did not audit, or cause to be audited, the Treasurer's records and reports. As a result, there is an increased risk that the Village may pay for items that are not necessary or appropriate, or pay for expenses that are excessive. In addition, the Board's ability to monitor financial operations is diminished.

Claims Audit

The Board should ensure that the Clerk prepares an abstract that includes all claims for payment. Upon the Board's audit and approval of claims, the Clerk should sign the abstract to direct the Treasurer to pay the claimants for the amounts allowed. The approval to pay claims must be recorded in the Board's official meeting minutes, which document the range (sequential numbering) of claims and

² The Board can authorize, by resolution, the payment of certain claims in advance of audit, including those for public utility services, postage, freight, and express charges. However, these claims must be presented to the Board for audit after payment.

total dollar amounts audited and approved by fund. The Board's audit process should verify that each claim includes evidence that the goods or services have been received and that Village officials complied with the Village's procurement policy.

The Board did not implement an adequate system of internal controls over the claims audit process. The Clerk prepares and provides to the Board a monthly abstract of claims³ for payment, along with the supporting claims. The Board audits and compares the claims to the abstract to ensure it has received all claims listed on the abstract. The Clerk documents claim number ranges by fund and the total dollar amount of the abstract approved by the Board in the minutes, and since November 2011, signs the abstract directing the Treasurer to pay the claims.

However, the Treasurer told us that prior to November 2011, he was paying and adding claims with a deadline to the abstracts after the Board's approval. The Treasurer generated an updated abstract (for the previous month) which the Clerk provided to the Board, without the supporting claims, along with the current month's abstract. The Clerk told us that the original abstract that the Board compared to the claims was discarded and replaced with the updated abstract printed by the Treasurer. Board members told us they were not aware that claims were being added and paid after their approval of abstracts and were not aware of the Treasurer's updates to the abstracts. Also, the Clerk does not consecutively number all claims paid during the year,⁴ which makes it more difficult for the Board to track which claims have been audited and approved. Because claims were paid with no Board audit, payments for inappropriate claims could occur.

Board members told us they do not verify whether claims contain documentation that goods and/or services were received as part of their audit and they do not ensure Village officials comply with the Village's procurement policy for goods and services requiring quotes.⁵ Therefore, the Village could be paying for goods and services that were never received and may incur higher costs than necessary for the goods and services that have been received.

³ The Clerk assigns a number to each claim listed in the abstract based on account code. For example, one invoice could result in multiple claims if there are multiple account codes associated with the invoice.

⁴ For example, general fund claims for June begin with 101, and claims for July begin with 201. Since a new series is created each month, it is more difficult for the Board to monitor the sequence of approved claims.

⁵ The Village's procurement policy requires officials to obtain written oral or fax quotes for purchase and public work contracts that are below competitive bid thresholds.

We randomly selected 50 claims totaling \$60,133 and judgmentally selected 32 high-risk claims totaling \$323,842 for a total of 82 claims totaling \$383,975. We tested these claims to determine whether they contained sufficient documentation and itemization including evidence that the goods/services were received, and that the expenditures appeared to be legitimate, necessary and in compliance with the Village's procurement policy. We also looked for documentation of the Board's audit and approval in the official meeting minutes.

Of all claims selected,⁶ we found five claims totaling \$23,937⁷ that were not approved for payment in the Board minutes, five claims totaling \$6,258 that were inappropriately paid in advance of Board audit, and two claims totaling \$4,099 that did not have evidence of quotes from two vendors, as required by the Village's procurement policy.

We also compared the total payments, and applicable claim number ranges from each monthly abstract from our samples⁸ to the abstract total and claim number ranges approved in the meeting minutes. We found 15 additional claims totaling \$8,389 that were not approved for payment in the Board minutes, and therefore not audited by the Board.

Although the claims represented actual, necessary and proper Village expenses, the failure to audit and approve claims, and also the inappropriate payment of claims prior to audit, increases the risk that the Village may make payments to ineligible parties, pay for items that are not necessary or appropriate, or pay for expenses that are unauthorized or excessive.

Annual Audit

Village Law requires the Board to audit the Treasurer's annual financial reports and supporting records, or cause them to be audited by a Village officer or employee or a certified public accountant. This annual accounting provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Village's fiscal procedures and activities. The audit also provides independent verification that the records have been maintained in accordance with established procedures, transactions have been properly recorded, and cash has been properly accounted for.

⁶ Some claims had more than one deficiency.

⁷ Includes a \$22,627 claim for a tractor which was paid from a community development block grant. The Board's approval of the draw down request was not shown in the Board minutes, but the related draw down request was signed and approved by two Board members.

⁸ June 2010-December 2010, February 2011-November 2011 and January 2012

The Village Board has not audited, or caused to be audited, the Treasurer's annual financial reports and supporting records. The Mayor told us that no audit has been performed from the time he became a Village Trustee in 1997. Also, the Clerk was not able to find documentation to indicate when the Treasurer's records were last audited. One Trustee told us that she was not aware that Village law requires such an audit.

The Board's failure to perform the required annual audit of the Treasurer's records diminishes its ability to monitor the Village's financial operations.

Recommendations

1. The Treasurer should ensure that only appropriate claims, allowed by Village Law, are paid in advance of audit and those claims are presented to the Board for audit as soon as possible after payment.
2. The Board should ensure that all claims are presented for audit by the Clerk. The Clerk should sequentially number vouchers with no gaps in sequence between months.
3. The Board should verify that claims contain documentation that goods were received or services were rendered as part of their audit of claims. In addition, the Board should ensure that Village officials and employees obtain price quotes as required by the Village's procurement policy.
4. The Board should ensure that an annual audit of the Treasurer's annual financial report and supporting records is performed, as required by Village Law.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

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February 5, 2013

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
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Syracuse, New York 13202-1428

Dear Rebecca:

The Village of Parish Board of Trustees, Mayor and Treasurer have reviewed the audit report compiled by the State for the Village of Parish for the period of June 1, 2010 – March 31, 2012.

The Board, Mayor, and Treasurer have already implemented some of the recommendations on issues concerning the audit.

The Board accepts the report and upon the receiving the final report will set up plans to follow all recommendations.

We hope to have them implemented by our new budget year of June 1, 2013-2014.

Sincerely,

Leon R. Heagle, Mayor

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to examine Board oversight of the Village's non-payroll claims audit and annual audit process. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed the Village Clerk, Treasurer, Mayor, and Trustees to gain an understanding of the internal controls surrounding claims processing.
- We tested claims to determine whether they contained sufficient back-up documentation such as invoices and price quotes and included goods/services that appeared to be legitimate and necessary. We also compared the claim totals and claim numbers in the abstracts to the Board's official meeting minutes.
- We used a random number generator to select a sample of 50 claims totaling \$60,133. The number of claims selected from each fund was weighted in relation to the total number of claims in the population. We selected an additional 32 claims based on high risk factors including payments to Village officials, unrecognizable vendors, goods that villages typically don't buy (according to the descriptions in the abstracts) and higher dollar amounts for claims subject to procurement requirements and price competition.
- We interviewed the Mayor and Trustees to determine whether an annual audit is performed and whether any other review is performed over the Treasurer's records and reports.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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