



Village of Tivoli

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

June 1, 2006 — May 1, 2008

2008M-204



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2009

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 Board of Trustees 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 the Village of Tivoli, entitled Internal Controls Over Selected Financial Activities. 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

EXECUTIVE SUMMARY

The Village of Tivoli (Village) is located within the Town of Red Hook in northern Dutchess County, and had a population of 1,163 according to the 2000 Federal census. The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general management and control of the Village's financial affairs. The Village Treasurer is the chief fiscal officer, and is responsible for maintaining a record of all receipts, expenditures and account balances, and for providing the Board with timely, accurate and useful financial information. Operating expenditures for the fiscal year ended May 31, 2007 were \$631,900 in the general fund, \$164,000 in the water fund, and \$79,900 in the sewer fund.

Scope and Objective

The objective of our audit was to review internal controls over selected financial operations for the period June 1, 2006 to May 1, 2008. Our audit addressed the following related questions:

- Has the Board effectively monitored the financial condition of the Village?
- Are internal controls over the procurement process appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over payroll and the administration of employee benefits, including separation payments, appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over the sale of garbage tags appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over information technology (IT) appropriately designed to adequately safeguard Village assets?

Audit Results

The Board needs to improve its oversight and ensure that controls are in place to adequately safeguard Village assets. The Village's financial condition has declined in recent years; the Village did not adhere to General Municipal Law or its own policy when procuring goods and services; the Village does not have a comprehensive payroll policy or procedures in place to ensure that employees receive only the benefits that they are entitled to; and controls over the inventory and sale of garbage tags and the Village's IT system are inadequate.

Board members did not receive financial information that was sufficient or complete, did not adopt budgets that were realistic or structurally balanced, and did not sufficiently monitor financial operations or take appropriate actions to maintain the Village's financial stability. This resulted in operating deficits and accumulated fund deficits in the water and sewer funds for the past five years. The water fund began the 2003-04 fiscal year with a fund balance of \$5,123. However, by the end of 2007-08 fiscal year, it had an accumulated deficit of \$84,038. Similarly, the sewer fund began the 2003-04 fiscal year with a fund balance of \$9,274. However, it ended the 2007-08 fiscal year with an accumulated deficit of \$24,780. In addition, interfund loans have not been repaid, the Treasurer's monthly reports were incomplete, the annual financial report has not been submitted in a timely manner, and an annual audit of the Treasurer's records has not been performed.

Village officials did not consistently adhere to statutory requirements or their own procurement policy when making purchases. We found two purchases totaling \$50,120 that lacked documentation to support that the Village adhered to the competitive bidding process, and 12 purchases totaling \$7,026 that did not have documentation to support that competitive quotes had been obtained. In addition, we found instances where claims were not sufficiently audited by the Board prior to payment. Because of these weaknesses, the Village cannot be assured that it obtained goods and services at the lowest possible price or that all payments were valid Village expenses.

The Village does not have a comprehensive payroll policy supported by written procedures. Also, the Board did not ensure a segregation of duties or provide mitigating controls for payroll and time and attendance functions or require all employees to submit appropriate time records. As a result of these weaknesses, the Village does not have adequate assurance that all payroll disbursements are appropriate. We found errors in the calculation and disbursement of a separation payment to a retiree, resulting in an overpayment of \$1,937.

The Village's internal controls over the sale of garbage tags are not adequate. The Village does not have inventory controls over the tags and does not reconcile tags sold to cash collected. As a result, garbage tags and their receipts, which total approximately \$30,000 annually, are subject to an increased risk of loss or misuse.

Finally, the Village's controls over Information Technology (IT) relating to policies and procedures, third party access, disaster recovery planning, and data backup procedures are inadequate. As a result, the Village's IT system and electronic data are subject to an increased risk of loss or misuse.

Comments of Village 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 planned to initiate corrective action. Appendix B includes our comments on issues raised in the Village's response letter.

Introduction

Background

The Village of Tivoli (Village) is located within the Town of Red Hook in northern Dutchess County, and had a population of 1,163 according to the 2000 Federal census. The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general management and control of the Village's financial affairs. The Village offers a variety of services to its residents, including street maintenance, lighting, snow removal, water distribution and sewage treatment and support for its volunteer fire department and ambulance services. Operating expenditures for the fiscal year ended May 31, 2007 were \$631,900 in the general fund, \$164,000 in the water fund, and \$79,900 in the sewer fund. These expenditures were funded primarily with revenues from real property taxes, State aid, departmental income, water sales and sewer rents.

The Village's appointed Treasurer and Clerk each perform various duties that are prescribed by law. The Treasurer is the chief fiscal officer and is responsible for maintaining a record of all receipts, expenditures and account balances, and for providing the Board with timely, accurate and useful financial information. The Clerk acts as clerk of the Board, keeping a record of all their proceedings, and also has custody of the Village's official books, records, and reports.

Objective

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

- Has the Board effectively monitored the financial condition of the Village?
- Are internal controls over the procurement process appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over payroll and the administration of employee benefits, including separation payments, appropriately designed and operating effectively to adequately safeguard Village assets?
- Are internal controls over the sale of garbage tags appropriately designed and operating effectively to adequately safeguard Village assets?

- Are internal controls over information technology (IT) appropriately designed to adequately safeguard Village assets?

Scope and Methodology

We interviewed Village officials, and examined the Village's financial records, reports, and policies for the period June 1, 2006 to May 1, 2008. For separation payments and benefits administration, we examined payroll records for the period January 1, 2006 to May 1, 2008.

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 C 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 planned to initiate corrective action. Appendix B includes our comments on issues raised in the Village's response letter.

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.

Financial Condition and Fiscal Oversight

An essential component of the Board's duties and responsibilities is to make sound financial decisions that are in the best interest of the Village and the taxpayers. The Board is responsible for ensuring that resources are available to fund the cost of Village operations. This responsibility requires Board members to balance the level of services desired and expected by Village residents with the ability and willingness of the residents to pay for such services. Therefore, it is essential that the Board adopt realistic, structurally balanced budgets for all of its operating funds that provide recurring revenues to finance recurring expenditures. The annual budget for each operating fund is expected to provide a reasonable estimate of appropriations, revenues, and other financing sources.

The Village's financial condition has declined in recent years. This resulted from overestimating revenues and underestimating expenditures when preparing the Village's annual budgets. As a result, the Village has experienced operating deficits, resulting in deficit fund balances in the water and sewer funds. Village officials have utilized interfund advances to provide sufficient cash for current operating expenditures in the water and sewer funds. The water and sewer funds' financial condition problems resulted from relying on inaccurate and incomplete financial information and unrealistic estimates when developing and adopting the annual operating budgets. Additionally, the Board has not adequately monitored financial operations and has not developed a comprehensive plan to deal with the Village's deteriorated financial condition.

Operating Deficits and Fund Balances

The responsibility for effective financial planning and management of the Village rests with the Board. Board members must ensure that budgets are prepared, adopted, and amended based upon reasonably accurate assessments of resources that can be used to fund appropriations. In addition to adopting realistic budgets, the Board should monitor the actual results and budgeted estimates of each fund regularly throughout the year. They should ensure that revenues can fund services as provided by the annual operating budget.

Board members have not received financial information that was sufficient or complete, have not adopted budgets that were structurally balanced, and have not sufficiently monitored financial operations or taken appropriate actions to maintain the Village's financial stability. As a result, the Village had unplanned operating deficits in the water and sewer funds for the majority of the fiscal years 2003-04 through 2007-08.

The water and sewer funds have experienced consistent operating deficits over the last five years. The water fund began the 2003-04 fiscal year with a fund balance of \$5,123. However, by the end of 2007-08 fiscal year, it had an accumulated deficit of \$84,038. Similarly, the sewer fund began the 2003-04 fiscal year with a fund balance of \$9,274. However, it ended the 2007-08 fiscal year with an accumulated deficit of \$24,780.

The operating deficits in the water and sewer funds occurred primarily as a result of revenue shortfalls. User charges constitute the major source of revenue for the water and sewer funds. The estimated user charges budgeted for the water and sewer funds were not realistic, based on actual historical revenue, but instead were computed in an amount that would appear to match projected expenditures. The Board engaged in poor budgeting practices and has not set water or sewer rates at a level which would generate revenues sufficient to meet the amount budgeted. Although the Board received monthly reports that compared budgeted amounts to actual revenues and expenditures, these reports were incomplete (see “Financial Reporting” section, below), and the Board did not effectively utilize these reports to monitor the budget or use as a guide when preparing the next year’s budget. As a result, the Village overestimated revenues in its water and sewer funds by a total of \$118,894 and \$65,641, respectively, over the past five years.

The Board’s failure to set user fees at a level that would generate revenues to cover expenditures or to reduce expenditures to match available revenue resulted in operating deficits in the water and sewer funds. As a result of these deficits, the Village is in danger of not having sufficient cash resources to finance current operations.

Interfund Advances

General Municipal Law provides the legal conditions under which interfund cash advances can be made. This statute also requires that repayment be made as soon as moneys are available, but no later than the close of the fiscal year in which the advance was made. When an advance is made between funds that are supported by different tax bases, repayment must include an amount reasonably equivalent to the amount that would have been earned on the investment of the moneys that were advanced.

Because of recurring revenue shortfalls, the Village’s water and sewer funds have been dependent on significant cash advances from the general fund. At May 31, 2007, the water and sewer funds owed the general fund \$72,045 and \$30,029, respectively. These amounts increased to \$90,329 and \$37,011, respectively, at May 31, 2008. The Village did not have a plan in place to repay these funds.

The Board is responsible for approving all interfund advances, and must ensure that all temporary interfund borrowings are repaid by fiscal year end. There was no indication in the Board's proceedings that it had authorized these advances. Rather, the Treasurer initiates all interfund advances without Board authorization. Since the general fund is primarily funded by real property taxes, and the water and sewer funds by user charges, there is an inequity created if interfund borrowings are not repaid timely and with interest.

Financial Reporting

The Village's financial records and reports must be timely, complete, and accurate to be relevant and useful for the Board and other Village officials to manage Village operations properly. The Treasurer should prepare monthly financial reports, as well as annual reports, detailing amounts received and disbursed for the Board to review. These reports should also include comparisons of actual revenues and expenditures to amounts estimated in annual budgets. Such information allows the Board to monitor actual Village financial activity against amounts included in the Village budget and to make informed decisions. Furthermore, the Treasurer must provide annual financial reports to the Board and the State Comptroller within 60 days following the close of each fiscal year as required by law. The annual financial report is an important document which allows management and the general public to assess the financial operations and financial condition of the Village.

The monthly Treasurer's reports to the Board include a listing of vendor payments and a report comparing budgeted amounts to actual revenues and expenditures. However, the Treasurer's reports reviewed were incomplete, compromising their usefulness to the Board. The reports lacked a listing of cash balances by fund, and the budgetary status reports did not include personal services expenses, which are a significant portion of the Village's total expenditures. The Treasurer's explanation, confirmed by the Mayor, was that the Board had not specifically requested this information. Consequently, the monthly information that was provided to the Board was incomplete and misleading and did not provide an accurate view of the Village's true financial condition.

Also, the Treasurer did not file the 2006-07 annual report with the State Comptroller until October 24, 2007, 26 days beyond the extended filing deadline. Similarly, the previous year's annual report was also filed past the extended deadline, having been filed with the Comptroller on October 25, 2006.¹

¹ The Village is required to file its annual report with the State Comptroller within 60 days after the close of its fiscal year . An additional 60 day filing extension may be granted by the State Comptroller if a written request is received from the Treasurer before the original 60-day filing period expires.

The lack of complete monthly and timely submission of annual financial reports diminishes the Board's ability to monitor and manage the Village's financial resources properly and increases the risk that errors and irregularities may occur and go undetected and uncorrected. In addition, the public does not have the opportunity to review the Village's financial operations and financial condition.

Annual Accounting

To properly perform its role of overseeing and managing Village finances, the Board should require the Treasurer to account for moneys received or disbursed and to produce all supporting accounting records, receipts, cancelled checks and other documentation. The Board should then audit these records or engage an independent public accountant to do so, as required by Village Law. An annual audit allows the Board the opportunity to monitor the Village's fiscal records and procedures and provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions.

There was no indication that the Board had audited the Treasurer's financial records and reports for fiscal year 2006-07. Although the Village engages a CPA firm to close the books and assist with preparation of the Village's annual report, this does not serve as an audit of the Treasurer's books and records. The Board's failure to ensure that the Treasurer's financial records and annual financial report were audited in a timely manner diminishes the Board's management oversight authority, and could have allowed errors or irregularities to occur and remain undetected.

Comprehensive Plan

Good management practice dictates that when a local government experiences significant fiscal stress resulting in cumulative deficit fund balances, the local government should develop a comprehensive plan to address the fiscal stress and deficits both on a short-term and long-term basis. The plan should include actions such as increasing sources of revenue or reducing the level of services, adopting structurally balanced budgets with realistic estimates of revenues, and keeping expenditures within budgetary appropriations.

The Board has not developed a comprehensive plan to address these operating deficits and to provide direction and leadership on resolving the deficits in these funds. The Board's failure to develop such a financial plan may lead to further deterioration of fund balances and greater financial stress to the Village.

Recommendations

1. The Board should ensure that each fund budget adopted is realistic, structurally balanced, and provides sufficient cash flow for operations.

2. The Treasurer should prepare and provide monthly reports to the Board which include complete budgets and actual amounts for all funds, as well as cash balances.
3. The Board should take appropriate steps to ensure that all interfund advances are made only upon their authorization.
4. The Board should ensure repayment of all interfund advances by the end of each fiscal year.
5. The Treasurer should file the Village's annual financial report with the Office of the State Comptroller on a timely basis.
6. The Board should perform or contract for the performance of the audit of the financial records and Treasurer's reports.
7. The Board should develop a comprehensive plan for resolving the deficit fund balances and cash flow deficiencies.

Procurement

Village officials are responsible for designing internal controls over purchasing that help safeguard Village assets, ensure the prudent and economical use of Village moneys when procuring goods and services, and protect against favoritism, extravagance, and fraud. It is also important that the Village have appropriate claims auditing procedures to ensure that the Village pays only those claims that are appropriate, represent actual and necessary Village costs, and are in compliance with applicable Village purchasing policies.

We found weaknesses in internal controls over purchasing and claims auditing. The Village violated statutory competitive bidding regulations and did not comply with its procurement policy. As a result, the Village paid over \$50,000 for two purchases without obtaining competitive bids, as required by General Municipal Law (GML) and did not obtain competitive quotes for 12 purchases totaling \$7,026, as required by its policy. Also, we found that the Board did not always properly audit claims prior to payment. Because of these weaknesses, the Village cannot be assured that it obtained goods and services at the lowest possible price or that all payments were valid Village expenses.

Purchasing

GML and the Village's procurement policy require that purchase and public work contracts be publicly advertised for bids and awarded to the lowest responsible bidder when they are in excess of \$10,000 and \$20,000, respectively. The bidding statutes contain specific requirements for the bidding process and documentation. The Village has adopted a procurement policy to provide procedural guidance for obtaining goods and services that fall below these thresholds. This procurement policy outlines the number of written or verbal quotes required, depending on the dollar amount of the purchase.

To test for adherence to competitive bidding requirements, we examined 10 purchases totaling \$305,320 and identified seven of these purchases, totaling \$294,784, that were required to be competitively bid. Two of those seven purchases, totaling \$50,120, were not properly bid. For example, the Village paid \$38,522 for a backhoe. Although the Village solicited written quotes from three vendors, the dollar amount of the equipment required that it go through the competitive bidding process.

We also reviewed 21 vouchers totaling \$10,608 to determine whether the Village obtained written or verbal quotes, as required by its

procurement policy. We identified 12 purchases totaling \$7,026, which did not have documented evidence that quotes were obtained. Also, during a separate review of the Village's purchases of fuel-related products, we noted that the Village purchased a new boiler totaling \$8,450 without obtaining competitive quotes. Village officials could not provide us with an adequate explanation for not obtaining the required quotes.

By failing to adhere to and enforce the provisions of GML and its own procurement policy, the Village can not be sure that it obtained goods and services of desired quality at the lowest possible cost.

Audit of Claims

The Board should deliberately and thoroughly audit claims before payment to determine whether the claims are proper charges against the Village. The audit process should ensure that all claims are sufficiently itemized, in proper form, and mathematically correct; do not include sales tax or charges previously paid; include documentation to support compliance with the Village's procurement policy; and contain evidence that goods or services were actually received. Claims should be paid in a timely manner to avoid incurring penalties for late payment.

We reviewed 37 claims totaling \$317,634 that were processed during our audit period for proper verification and approval. We found deficiencies in 13 claims totaling \$759:

- Twelve of the 37 claims reviewed were for credit card purchases that were made by the former mayor totaling \$1,706. We found that there were no supporting receipts for 11 of these claims totaling \$679. These claims were approved for payment by the Board during their claims audit, although the supporting documentation was missing.
- We also noted two claims which included a total of \$80 for penalties and finance charges assessed for late payments because the Board did not audit and approve these claims in a timely manner.

These errors and payments without supporting documentation occurred because the Board did not properly audit claims prior to payment. As a result of these weaknesses in the claims auditing process, the Village is at an increased risk of making payments for unauthorized purchases, making inaccurate payments, or paying for goods or services it has not actually received.

Recommendations

8. The Board should comply with GML's competitive bidding requirements and provisions of the Village's procurement policy when procuring goods and services, and ensure that sufficient evidence of such compliance is attached to the claim before it is approved for payment.
9. The Board should ensure that all claims contain adequate supporting documentation, prices paid are in agreement with contractual amounts, and claims are audited and approved in a timely manner.

Payroll and Separation Payments

Salaries and wages, overtime, and employee benefit costs comprise a significant portion of the Village's budget. Therefore, the Board must establish appropriate controls, including policies and procedures, to prevent and detect errors and irregularities in the Village's payroll function. Key components of such controls include the proper segregation of duties and effective management oversight so that no one person controls all phases of a transaction. Sound internal controls also include Board-adopted resolutions that define conditions and benefits such as hours to be worked, rates of compensation, amounts and method of calculating leave time, and eligibility for health insurance and other fringe benefits.

The Village follows Dutchess County Civil Service rules, and includes pay rates for elected, appointed and hourly employees in a payroll schedule contained within the adopted budget. The Mayor certifies the bi-weekly payroll, and Dutchess County Civil Service does an annual payroll certification.

We found that the Board did not establish adequate controls over payroll. As a result, the Village is at an increased risk of not granting the proper benefits to its employees in compliance with Board resolutions and could grant benefits that the Board did not intend to provide. We found errors in the calculation and disbursement of the separation payment that was made to a retiree during our audit period, which resulted in an overpayment of \$1,937.

Policies and Procedures

Effective internal controls over payroll processing include written policies and procedures to help ensure that the payroll is processed consistently, accurately, and in accordance with applicable guidelines. Such policies and procedures help employees understand the Board's objectives and provide them with guidance in carrying out their specific duties and responsibilities. The Board is responsible for establishing procedures that ensure an adequate segregation of duties so that no one individual can control multiple aspects of the payroll process. Payroll calculations should be independently verified, and changes to routine payments should be documented and approved.

The Board has not established comprehensive payroll policies and procedures that address key aspects of the payroll process, including definition of full time status that is applicable to hourly or salaried positions, the segregation of duties and appropriate controls over payroll payments, timesheet approvals, and the administration of

separation payments and employee benefits. As a result, the Village is at an increased risk that errors and irregularities in the payroll process and administration of benefits could occur and go undetected and uncorrected.

Segregation of Duties

The Board did not establish proper segregation of duties over the payroll process, and independent monitoring activities were not adequate as a compensating control. The Treasurer, as payroll clerk, could add and remove employees from the payroll system, keep attendance records, update employee information, input salary detail, and process the payroll, including the calculation of separation payments and preparation of paychecks. This lack of segregation of duties increases the potential opportunity for the payroll clerk to make unauthorized changes, or make errors that would not be detected or corrected. Although the Mayor certified most payrolls attesting to the fact that the individuals listed were valid Village employees, he did not provide an independent verification of its information and calculations.

Recordkeeping

Timesheets are a necessary control for accurate payroll processing and are used by individual employees to record the hours they work, including starting and ending times. The Board requires that timesheets and time records be submitted by hourly employees only. Therefore, unless salaried employees voluntarily submit their time records, there is no documented support for their hours worked or leave time taken. Also, the Village did not establish a process for sick or vacation leave requests, or related approvals, beyond the Board requirement that annual vacation requests be submitted by February. The Mayor approves requests for personal leave. However, employees do not submit written leave requests, and personal leave that is taken is not tracked. As a result, time and attendance records are not fully supported and cannot be verified for salaried employees. Because of these insufficient controls, the Village is at increased risk of compensating employees for leave that they are not entitled to.

Separation Payment

Separation payments to which full time Village employees are entitled for accrued and unused sick leave time at retirement are outlined in the adopted Village Benefits Schedule. However, the Village's internal controls over payments for unused leave time were not adequate. The Board did not provide sufficient oversight to ensure that retiring employees leaving Village service received only the amounts of compensation to which they were entitled, and the separation payment calculations were not independently verified prior to the final paycheck being disbursed.

During our audit period, the Village made one separation payment to an employee who retired in June 2006. We reviewed the

accrued leave and final pay calculations and found errors in time and attendance records and the calculation of leave time payable at retirement, which resulted in an overpayment of \$1,937. The Treasurer's initial calculation called for payment of \$4,300 for 344 hours accrued. However, we calculated an amount payable of \$4,063 for 325 hours accrued based on our review of submitted, approved timesheets. The employee actually received six checks of \$1,000 each for a total disbursement of \$6,000, which resulted in a total overpayment of \$1,937. This happened because:

- The time and attendance records on which the initial calculation of accrued and unused sick leave hours payable were incorrect and not properly updated.
- The separation payment was not made in a lump sum, but disbursed in bi-weekly increments.
- Calculations were not independently verified or approved by the Board.

The Board's lack of oversight over the payroll process can, and did, result in incorrect payments being made, and a retired employee received benefits that he was not entitled to upon his separation from Village service.

Recommendations

10. The Board should develop a comprehensive payroll policy that provides for an adequate segregation of duties, and written procedures to guide employees in their payroll processing responsibilities. If payroll duties cannot be sufficiently segregated, the Board should implement compensating controls, such as management oversight or independent reviews of payroll records.
11. The Board should establish criteria for employees to qualify as full-time status to ensure that benefits are properly administered.
12. The Board should ensure that all employees and elected and appointed officials maintain time records.
13. The Board should implement procedures for the independent verification of payroll calculations and payments.
14. The Board should ensure that accrued leave time is supported by time and attendance records, and that there is an independent verification of separation payment calculations before payments are made.

Sale of Garbage Tags

Village residents must purchase garbage tags in order to have their garbage disposed of by the Village. Residents can purchase garbage tags at the Clerk's office or at the Tivoli Free Library. Village garbage tag sales generate revenue of more than \$30,000 annually.

An effective internal control system over assets such as garbage tag inventories requires maintaining a record of tag numbers that were placed into inventory, securing the inventory, selling the tags in numerical order, and performing a daily reconciliation of cash collected to tags sold. A preferred system of internal controls over cash that is received from the sale of the tags requires issuing press-numbered receipts for all cash collections and maintaining a daily record of cash receipts that details the receipt numbers, dates, and amounts collected. A complete inventory of unsold garbage tags should be kept to be able to accurately reconcile recorded sales with purchases and inventories on hand.

The Village's internal controls over the inventory of garbage tags, and the cash receipts generated from their sale, were not appropriately designed or operating effectively to adequately safeguard Village assets. We found that the Village did not have written policies or procedures for the sale of garbage tags. The Clerk does not issue press-numbered receipts or maintain a cash log for cash receipts from the sale of garbage tags. Garbage tag sales are processed through the same cash register that is used by the Clerk, Treasurer, and Mayor, and the register does not separately identify the individual processing the receipt. In addition, we noted that the Clerk has been making the majority of the bank deposits of these cash receipts, instead of the Treasurer, as required by Village Law.

The inventory of garbage tags is not properly reconciled or controlled. The Village does not maintain inventory records that include an inventory of unsold garbage tags (including those distributed to the library). In addition, tags are not sold in numerical order and are not reconciled to related cash receipts on a daily basis. Open packages of garbage tags are not secured; instead, they are stored on a shelf in the Clerk's office, which makes them susceptible to theft.

This situation occurred due to the lack of written procedures and insufficient Board oversight. While we found no evidence of misappropriation or misuse related to the sale of garbage tags, the lack of written procedures incorporating adequate internal controls

such as recording cash receipts from the sale of tags, daily cash and tag reconciliation, and periodic inventory reconciliation exposes the Village to unnecessary risk of loss, theft, or misuse.

Recommendations

15. The Board should establish procedures to help ensure that garbage tags and related cash receipts are safeguarded and properly accounted for. These procedures should require maintaining inventory records, periodically conducting physical inventories, and preparing reconciliations of recorded sales and purchases and inventories on hand.
16. The Board should require that the Treasurer make all bank deposits.

Information Technology

The Village relies on an information technology (IT) system for correspondence; preparation, issuance and posting of collected user charges billings; collection of taxpayer billings; Internet access; e-mail communication; preparation of payroll; issuance of checks; maintenance of financial records; and reporting to State and Federal agencies. Therefore, the IT system and the data it holds are a valuable Village resource. If the IT system fails, or is damaged or destroyed, the resulting problems could range from inconvenient to severe. Even small disruptions in electronic data systems can require extensive time and effort to evaluate and repair.

An effective system of internal controls to safeguard computerized data includes policies and procedures to protect vital computer equipment, software, and data, and to provide guidance to Village personnel in restoring lost data and resuming operations in the event of a disaster. These essential controls must limit unauthorized access to data, include a disaster recovery plan, and provide for routine backups and secure, off-site storage of computer data so that Village personnel can efficiently restore any lost data and resume critical operations with a minimum amount of liability or lost productivity.

We found weaknesses in the Village's controls relating to policies and procedures, third party access, disaster recovery planning, and data backup procedures which increase the risk that unauthorized users can access Village data or that potentially costly disruptions to the Village's operations will occur and result in system failure or data loss.

Policies and Procedures – The Village has no written policies and procedures for employee or Board use of the computer system. Additionally, the Village does not have computer use policies or remote access agreements in place to govern the three different vendors servicing its IT needs. Without an acceptable use policy or remote access agreements, there is greater risk that the Village's IT resources could be compromised and/or inappropriate transactions could be initiated and not be detected by the Village.

Disaster Recovery – A disaster recovery plan is intended to identify and describe how the Village plans to deal with potential disasters. Such disasters may include any sudden, catastrophic event (e.g., fire, computer virus, power outage, or inadvertent employee action) that compromises the integrity of the IT system and data. An effective plan includes precautions to minimize the effects of the disaster,

including the routine backup of all critical data, and to enable the Village to either maintain or quickly resume its critical functions.

The Village does not have a formal disaster recovery plan. Consequently, in the event of a disaster, Village personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data, or guidance on how to implement data recovery and resume operations as efficiently as possible.

Data Backup – Sound business practices require that the Village back up (make a duplicate copy of) the data stored on its computers and servers on a routine basis so that it can be restored in the event of loss. Backup data should be kept at a secure alternate location to protect it from loss in the event of a disaster at the server location site. It is also important that the Village routinely test the backup data to ensure its integrity.

The Village does a daily backup of its data files and stores the backup media in a fireproof safe on Village premises. However, even though the backup tapes are in a fireproof safe, storing them on-site still subjects them to many of the same risks (disasters) as the original data and defeats the purpose of this control procedure. Further, the Village does not have a formal process for testing the backup data by routinely restoring it to the system. As a result of these control deficiencies, the Village's financial information and other critical data are at an increased risk of loss in the event of a disaster.

Recommendations

17. The Board should develop written policies and procedures for computer use that include third party access agreements.
18. The Board should develop a formal disaster recovery plan that addresses the range of potential threats to the Village's information technology system and includes the requirement for adequate backup.
19. The Village should ensure that backup copies of data are stored at a secure off-site location, and that the backup data is periodically tested to verify its integrity.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

February 20, 2009



Village of Tivoli
Founded 1795

Thomas L. Cordier
Mayor

Bryan F. Cranna
Deputy Mayor

Anthony A. Staffiero
Trustee

Susan Ezrati
Trustee

Michael S. Leedy
Trustee

Laura E. Queen
Village Clerk

Susan B. Davis
Treasurer

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[REDACTED]
Division of Local Government and School Accountability
Office of the State Comptroller
22 Computer Drive West
Albany, NY 12583

Dear [REDACTED]:

The Village of Tivoli is in receipt of the draft audit of the Village's internal controls over selected financial activities for the period June 1, 2006 to May 1, 2008. The information presented in the audit demonstrates the intent of the process by providing us with an opportunity to reflect on our operations, controls and procedures. At all times during the process, the examiner assigned to our village was thorough, professional and courteous. We appreciated the opportunity to work with an individual of her caliber.

It is my understanding that the intention of this audit 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." In this light, I wish to provide specific response to only some of your findings. Please note, with few exceptions, I concur with your findings and look forward to developing corrective steps to address these recommendation.

As noted in our conversations, we would remind you that during the time of this audit the village was ongoing several changes in personnel. The transition from our previous to current village clerk caused a degree of confusion and limited speedy access to records and requested information. While this has been remedied, we believe this staff adjustment may have caused several erroneous conclusions we will address in this letter and our corrective action plan.

1. The small village of Tivoli, only 1163 residents, has a water and sewer infrastructure that was constructed in 1938. While aging, the system remains an enormous benefit to our community and its residents. Throughout its existence we have sought to maintain the

system and expand water supply. From 1970 until only several years ago, the village experienced regular supply shortages, necessitating regular emergency conservation measures.



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Having, in recent years, invested considerable resources to remedy this situation, the village has actively sought to minimize cost to consumers while managing expenses shared by the water, sewer and general funds. This exercise has, at times, led us to inadvertently overstate water and sewer expenses.

As noted during our interviews with you, several large customers were taken “off line” during a short period time. Knowing that these users would return and the village could count on increased revenues the Village Board chose not to increase rates, temporarily adding to the burden of system customers.

As we move forward with corrective action, we are confident that the deficits identified in the water and sewer funds can be addressed by more aggressive budget management and review of shared allocations. Further, we are now enjoying the benefits of reduced costs resulting from the installation of our constructed reed bed septic and are in the midst of a process to consolidate system capital project debt. We expect that all of these measures will result in reduction of the identified deficits.

2. As stated, we regret that some records were not organized in time for your review. We believe this may have caused you to erroneously conclude that the Village was not consistently adhering to statutory or village requirements with respect to procurement of equipment and the audit of claims. In the corrective action plan, we will be providing you with a plan to improve our procedure for filing invoices and evidence of proper procurement procedures.

See
Note 1
Page 27

For the purposes of this response, we wish to highlight three such conclusions. In your review you identified the purchase of a \$38,522 backhoe as not meeting proper bidding requirements. Having believed we met all bidding requirements, we reviewed the record of this purchase. The village did secure three written quotes including one identified on “state contract.” Contract

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#19937GRP4603 on “state bid” was approved for purchase by the board, meeting all appropriate procurement regulations.

See
Note 2
Page 27

Similarly, you identify the purchase of an \$8,450 replacement boiler at the Fire Department. As noted and reviewed, I approved this purchase as an emergency acquisition. The boiler failure at the emergency operations center and firehouse for the Village of Tivoli occurred during the winter and failure to replace could have resulted in damage to the firehouse and the fire equipment. We acknowledge that this emergency declaration was not properly documented.

In your review of thirty seven claims totaling \$317,634 you identified eleven credit card purchases where you suggest no supporting receipts for \$679. After an exhaustive review of these purchases and invoices we have found all such credit card purchases to contain all necessary documentation for audit and payment purposes. The \$80 in penalties and finance charges identified on two claims came as a result of the previously noted staff changes. In all cases, we believe our audit and review process satisfies appropriate regulations. We will continue to strive for increased safeguards.

See
Note 3
Page 27

3. We acknowledge a need to establish a more “comprehensive payroll policy” and will undertake an effort to formalize definitions of sick time and holidays for appointed and hourly employees. These policies existed in the form of correspondence to staff. Since the previous audit did not require “codification,” we did not pursue this in prior years. We will move forward with such an effort.

We also thank you for highlighting several other of the procedures that we may implement to improve information technology security, payroll allocations, garbage tag inventory controls, and documentation of competitive bidding. We are pleased that we have been able to adhere to statutory procurement requirements, but recognize that we need to improve our documentation practices.

While our previous audit identified no concerns, we recognize the need for constant vigilance. Despite some of the findings in this audit, the Village

of Tivoli has consistently sought to improve practices in order to ensure adherence to all applicable laws and regulations, while balancing the need to reduce the burden on local taxpayers. We will continue doing so.



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Sincerely,


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APPENDIX B

OSC COMMENTS ON THE LOCAL OFFICIALS' RESPONSE

Note 1

Our conclusion was not erroneous. Our audit results show that the Village did not consistently comply with GML and the Village's procurement policy. Specifically, the Village paid more than \$50,000 for two purchases without obtaining competitive bids, as required by GML, and did not obtain competitive quotes for 12 purchases totaling \$7,026, as required by its policy.

Note 2

There was no documentation attached to the claim, or provided by Village officials at the time of our audit, to show that the backhoe was purchased from a vendor who held the State contract at the time the purchase took place.

Note 3

The purpose of the claims audit process is to ensure that claims are proper Village charges before they are approved for payment. The fact that an exhaustive review by the Board was necessary to locate documentation indicates that such documentation was not available when the Board initially approved the claims.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by 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 oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

During the initial assessment, we interviewed appropriate Village officials and employees, performed limited tests of transactions and reviewed pertinent documents such as adopted budgets, Village policies, Board minutes and resolutions, and financial records and reports. In addition, we used information obtained directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the Village's financial transactions as recorded in its databases. Further, we reviewed the Village's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

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 objectives and scope by selecting for audit those areas most at risk. We selected financial condition and fiscal oversight, procurement, employee benefits administration and separation payments, and processes for the sale of garbage tags further audit testing.

In the area of financial condition and fiscal oversight, we interviewed Board members and appropriate Village personnel and examined the following records:

- Adopted budgets for the 2003 through 2008 fiscal years
- Revenue and expenditure trends for the 2003 through 2007 fiscal years
- Budgetary status reports of the Treasurer
- General and subsidiary ledgers
- Journal entries
- User charges billing reports, service rate lists, receipts journals, and customer account histories
- Deposit slips and bank statements
- Minutes of the Board of Trustees.

In the area of procurement, we interviewed appropriate Village officials and personnel and examined the following records:

- Village procurement policy
- Board minutes
- Approved abstracts
- Voucher/claim packages
- Documentation of competitive bids, and requests for proposals and quotations
- Vendor payment history reports.

In the area of employee benefits administration and separation payments, we interviewed appropriate Village officials and personnel and examined the following records:

- Payroll schedules
- Board minutes
- Personnel files, timesheets, payroll records, and time and attendance records
- Health insurance benefits roster.

In the area of garbage tag sales, we interviewed appropriate Village officials and personnel and examined the following records:

- Cash register tapes
- Deposit slips
- Bank statements
- General and subsidiary ledgers
- Paid vouchers listing the garbage tag numbers.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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APPENDIX E
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DIVISION OF LOCAL GOVERNMENT
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Steven J. Hancox, Deputy Comptroller
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