

VILLAGE OF BROCKPORT
CORRECTIVE ACTION PLAN (CAP)

PREPARED IN RESPONSE TO MANAGEMENT LETTER, RAYMOND F. WAGER, CPA

FINANCIAL AUDIT PERIOD: FISCAL YEAR END MAY 31, 2009

Adopted by the Village Board October 5, 2009

CORRECTIVE ACTION PLAN (CAP)

The Village Board has reviewed the Management Letter submitted by Raymond F. Wager, CPA based upon their audit of the financial statements and review of internal controls of the Village of Brockport for the fiscal year ended May 31, 2009.

It is the Board's objective to ensure that effective internal controls (policies, procedures) are established to provide reasonable assurance that our fiduciary responsibilities are met and laws are followed.

The Village Board offers the following:

Material Weaknesses

1. Budgeting. *The Village's expenditures for the General Fund for the year ended May 31, 2009 exceeded the approved budget amount by \$626,606. As a result, the Village's General Fund sustained a decrease in equity totaling \$587,812.*

Response: The Village Board acknowledges that both operational and reserve expenditures exceeded the approved budget. The Board intends to revise the current budget process and monitoring of the annual budget throughout the fiscal year to ensure budgetary compliance. The Mayor and/or the Village Board Finance liaison will meet with the Treasurer on a routine basis to review monthly financial statements and take action as deemed necessary.

2. Establishing Tax Levy. *We noted the Village approved the tax levy and collected \$70,157 over the amount budgeted as property tax revenue in the 2008-09 operating budget without specific explanation in the Board minutes.*

Response: The Village Board acknowledges the error in determining the 2008-09 total taxable value as stated on the tax roll. The Treasurer discovered the discrepancy while preparing the 2009-10 budget and accurate values will be used henceforth. A formal explanation was not discussed during a Board meeting therefore no official Board action was taken.

3. Appropriated Fund Balance. *The Appropriated fund Balance to support the 2009-10 Water Fund Budget exceeded the available fund balance resulting in an unappropriated deficit fund balance at May 31, 2009 of \$65,604.*

Response: The Village Board acknowledges there was insufficient Unappropriated Fund Balance to balance the 2009-10 Water Fund Budget. Total budgetary expenditures exceeded revenues by \$184,207 with available fund of \$118,603. During the budget process the Board noted that water revenues for the period ending May 31, 2009 were substantially less than previous years. In addition, the 2009-10 budget introduced

debt service of \$77,000 for the Route 19 Water/Sewer Reconstruction Project. The Village Board is currently developing new water rates to address the operational deficits.

4. Bank Account Reconciliations. *Failure to reconcile Payroll checking account. Review of monthly bank reconciliations.*

Response: The Treasurer is now reconciling the payroll checking account statement on a monthly basis and will make adjustments, if necessary. In furtherance of monitoring internal controls, the Village Board recognizes that no staff member involved in the process should review the bank statements. Additionally, electronic access to the Village's bank account is required in order to review the cancelled checks. A process is currently in place to have the Mayor review all monthly bank statements.

5. Financial Statement Preparation. *Restatement of specific fund balances as of 5-31-08.*

Response: The Village Board approves the restatement of fund balance for the Water Fund, Trust & Agency Shafer Trust account and reclassification of Bond Anticipation Note.

6. Payroll. *We noted that the individual who processes payroll can also change pay rates. This same individual also maintains personnel files. We also noted that payroll expenditures are being charged to the Water Fund for an employee that does not perform any duties for the Department.*

Response: The Village Board will work with the Village Clerk and Treasurer to develop internal controls to mitigate this, and several other areas, affected by the level of staffing in the administrative office. All changes in payroll are documented in the bi-weekly payroll summary reports which are currently reviewed and approved by the Treasurer and the Mayor. The Village Board acknowledges the Water Fund payroll distribution discrepancy which will be cured in the 2010-2011 budget.

Significant Deficiencies

1. Computer Weaknesses. *It has been several years since the computer accounting system has been updated. There is no individual designated as system administrator. Current employees are using usernames and passwords of individuals who are no longer employees of the Village. There are no procedures in place to verify new vendors added to the (accounts payable) system.*

Response: All Village software programs were updated on August 11, 2009, usernames and passwords were changed and the Village Treasurer is currently serving as the system administrator. The new vendor application form was updated by the Deputy Treasurer to include required signature/approval by the Treasurer.

2. Third Party Billing Administrator. *During our review we noted that the Village did not track the billing, accounts receivable and amounts deemed to be uncollectible regarding ambulance service and the third party billing/collection administrator.*

Response: The Village Board agrees that additional internal controls should be established to safeguard Village revenues collected by third parties. The Treasurer will request reports on a periodic basis to review the status of uncollectible funds.

3. Lack of Segregation of Duties-Water. *Our examination revealed that billings for water usage are not reviewed by someone independent of the billing department before the bills are sent out. In addition, we noted that the same individual is responsible for preparing and sending out bills, collecting money, and posting receipts to the system.*

Response: It is noted that all administrative staff collect water payments. The Village Board acknowledges the "lack of segregation of duties" as an area that requires further review. The Village Board will work with the Village Clerk and Treasurer to develop additional internal controls to mitigate this, and several other areas, affected by the level of staffing in the administrative office.

4. Disbursements. *During the course of our disbursements examination we noted that 26 of the 44 credit card transactions tested were not supported by an original vendor invoice or itemized receipts.*

Response: The Village Board will be developing policy for use of the Village credit card.

5. Journal Entries. *Journal entries are not routinely reviewed by someone other than the preparer.*

Response: The Treasurer prepares the monthly journal entries in conjunction with the financial statements. Copies of the financial statements are given to the Village Board and Department Heads on a monthly basis. The Mayor, or her representative, will periodically review the journal entries.

6. Payroll. *The taxable benefit for the personal use of Village owned vehicles by employees is not currently being reported. An employee was allowed to use compensatory time to leave work early before the time had been earned. The Village does not have written procedures which require an independent review of all changes made to the payroll system. The Police Chief is not approving timesheets for his department and no one approves the timesheets of Village Department Heads. Compliance with required documentation- I-9's.*

Response: The Village Board will be reviewing its existing Policy (Employee Handbook Section 507, Vehicle Usage) to ensure compliance with IRS regulations regarding employees' taxable fringe benefits. Department Heads will be encouraged to more closely review employee's timesheets prior to submitting to Payroll. While the Village does not currently have written procedures which require an independent review of all changes made to the payroll system, the bi-weekly reports approved by the Mayor and Treasurer, include a report of all changes from the prior payroll period. The Police Chief will approve timesheets for his Department and Department Heads timesheets will be approved by the Mayor. The Deputy Treasurer (Payroll Clerk) will periodically be updating the required I-9 forms, consistent with applicable laws.

7. Reserve Funds. *Deficit balances closed to General Fund unreserved fund balance, \$256,687. Authorization to establish reserve funds. Legal compliance requirements should be reviewed to ensure all capital reserve fund expenditures are properly administered.*

Response: The Village Board will be taking action to establish/re-establish those Reserve Funds that could not be identified as having been legally adopted by the Board of Trustees. Further, the Village Board will review and implement the statutory provisions for expenditures from Reserves.

8. Year-End Adjustments. *As a result of year-end audit procedures, several material adjusting entries were required in the General Fund, Water Fund, Capital Fund, General Long-Term Debt and General Fixed Assets to properly reflect year-end account balances.*

Response: The Village Board acknowledges the material adjusting entries. As previously stated, the Mayor and/or the Finance Liaison will periodically meet with the Treasurer to review the financial statements and ensure financial statements are prepared consistent with generally accepted accounting principles.

9. Fixed Assets. *The Village Board has not established the dollar threshold for the capitalization of fixed assets. In addition, the fixed asset listing maintained is not updated for fixed asset acquisitions and disposals. Also, the value of fixed assets is not currently maintained on the accounting system.*

Response: The Village Board recognizes the importance of ensuring that capital assets are protected and accounted for. The Board will work with the Treasurer and Department Heads to develop a process whereby the acquisition and disposition of assets are clearly identified and the Village's perpetual inventory records are updated. The Fixed Assets Group of Accounts will be maintained on the Village's financial system. Additionally, the Village Board will take action to establish a capitalization threshold that assets must exceed before they are reported in financial statements.

Control Deficiencies.

1. General Accountability. *Key financial employees of the Village are not bonded. The Village does not have a disaster recovery plan in place regarding financial data. There is a lack of cross-training among finance department staff.*

Response: The Village Board has secured bonds for the Treasurer, Deputy Treasurer, Clerk and Water Clerk, all of whom receive Village funds. The Treasurer and Clerk have implemented several recommendations from the Village of Brockport's "Business Critical Availability Review" prepared by our independent IT consultant. The process of backing up financial data has been changed in the last two (2) months to move toward more reliable recovery; additional options are being reviewed. The Village Board has determined that there exists sufficient cross-training among Finance Department Staff, Treasurer and Deputy Treasurer. Cross-training among all administrative staff has recently been addressed and is on-going.

2. Miscellaneous Funds. *The Village has a liability recorded in the General Fund for the Walk-Bike Group Fund in the amount of \$5,300. These funds may be more appropriately recorded in the Village's Trust & Agency Fund.*

Response: The Treasurer has transferred the Walk-Bike Group funds to the Trust & Agency Fund.

3. Health Insurance Premiums. *The responsibility for billing health insurance premiums for retirees and current employees is not segregated from the collection and accounting functions. In addition, billings for retirees are not reviewed by someone other than the preparer prior to mailing. The Village makes a monthly payment to one retiree in lieu of health insurance and has not obtained documentation to ensure that these monthly payments do not exceed actual premiums paid by the individual, as stipulated in the employee contract.*

Response: As previously stated, the Village Board will be working with the Village Clerk and Treasurer to develop mitigating controls to address this, and several other areas, affected by the level of staffing in the administrative office. All administrative staff receive payments therefore it is not limited to the Village Clerk who prepares the billings for retirees. The Treasurer has notified the retiree in question that proof of payment must be provided the Village prior to issuing the payment in lieu of health insurance.

4. Purchase Order System. *The Village has not maintained a fully integrated purchase order system.*

Response: The Village Board understands the value of using a purchase order system for budgetary controls. The Village does not currently utilize a purchase order system designed to encumber the budget and authorize only expenditures supported by the budget. The Board intends to review this option.

5. Village Policies. *The Village does not have a policy in place for Use of Village Equipment/Vehicles, Use of Village Cell Phones and Use of Village Credit Cards. It is also noted the Village Board does not review the Investment Policy on an annual basis.*

Response: As previously noted, the Village Board will be amending its existing Policy (Employee Handbook Section 507, Vehicle Usage) to incorporate language consistent with IRS regulations regarding employees' use of Village owned vehicles and the treatment of such as a taxable fringe benefits. The use of Village equipment is addressed in Section 509 of the Employee Handbook. The Village Board will be developing policies for Village Cell Phones and use of Village Credit Cards. The Village Clerk has been directed to add review of the Investment Policy to the Annual Organizational Meeting agenda.

Other Items.

1. Auditing Standards. *Recent auditing standards require that management document in writing their understanding of the internal accounting controls that are in place in the finance office. We suggest management begin the process to document the procedures performed for the various finance department functions (payroll, cash receipts, cash disbursements, bank reconciliations and monthly closing).*

Response: As previously stated, the Village Board will be discussing a Policies and Procedures Manual which would include documentation of the various Finance Department procedures as an additional measure of internal accounting controls.

2. Ambulance Surplus. *The Village currently tracks cash revenues and expenditures associated with ambulance services. As you know the New York State Comptroller has issued guidance detailing restrictions imposed on surpluses incurred if ambulance revenues exceed expenditures. The village should review this situation to ensure compliance with the Comptroller's guidance.*

Response: The State Comptroller's Legal Department is currently reviewing the use of Ambulance revenue as pertains to General Fund operations.

3. GASB #45-Post-Employment Health Benefits. *Implementation of GASB #45 effective May 31, 2010 which requires the Village to report the cost associated with retiree health obligation over the terms of employment as*

opposed to the pay-as-you-go basis. This liability will be recorded on the Village-Wide financial statements on a phased in basis over 30 years.

Response: The Village Board intends to comply with GASB regulations however notes the potential cost associated with ascertaining actuarial data.