

MEMORANDUM

TO: BOARD OF TRUSTEES
VILLAGE OF RUSHVILLE

FROM: JOHN SAWERS, MAYOR
JOANNE BURLY, VILLAGE CLERK

DATE: September 10, 2018

RE: **RESPONSE TO NYS COMPTROLLER AUDIT**

This is in response to the audit report released the NYS Comptroller's office entitled, "Board Oversight and Information Technology" dated August 2018 (herein "Audit").

BACKGROUND: This Audit is was one of a series of steps the current administration has taken to assure that Village government engages in what we believe to be best practices in the administration of local government. We knew when we took office that there was a need for improved accountability and transparency in the way that Village government administered its financial affairs.

As part of this effort, the Board of Trustees collectively wrote to the Comptroller's Office in June of 2017 requesting a review of a number of "irregularities" and gaps we discovered in the Village's record-keeping. The Comptroller responded in December of 2017 advising that they would conduct an audit of the 2016/2017 budget year.

These were some of our concerns:

- We discovered over a year's worth of bank statements that had never been opened. This meant that previous Village officials had no idea of the condition of the Village's accounts.
- Many records regarding major financial transactions were simply non-existent, which meant there was no means of determining how the funds were spent and to whom the expenditures were made.
 - For example, in 2012, the former mayor petitioned the Ontario County Supreme Court for approval to take \$200,000 from our cemetery fund for the construction of new sidewalks in the Village and the remodeling of our library. The Court granted this request on 4/27/2012. Our records show that \$200,000 was moved from the cemetery account to a separate account. This account shows withdrawals of \$138,000. However, there are no records of who was paid or what projects were completed. The expansion to the library was never completed and we anticipate the remaining \$62,000 will be used for that purpose.
- Out of that \$200,000, the previous mayor, without Board approval, directed the purchase by the Village of the property and buildings formerly owned by Ralph Martin Tires at a cost of \$26,000.
- In June of 2008, at the recommendation of a financial consultant, the previous administration directed the investment of \$125,000 in a fund called Icon Leasing Fund – 11. By the time that

the current administration took office in April 2016 the principle balance in this fund had declined in value to \$1,587.50. That means over \$123,000 was lost on this investment under the previous administration. This investment earned \$63,000 in dividends, leaving a net loss of \$62,000 which is reflected in the Audit.

- Looking back, it is clear that no one was monitoring this account. For example, between June 2008 and April 2010, a period of less than two years, the principal value dropped from \$125,000 to \$43,441, or a net loss of \$81,559. Had someone been monitoring this account, this would certainly have raised a red flag that the Board should take action.

The Audit report we see today is the direct result of our request made over a year ago for assistance in rectifying the problems we have encountered in the Village's finances. Keep in mind that the purpose of a Comptrollers' audit is to identify areas where a municipality's book-keeping may need improvement in order to better serve the public. It was in that spirit that we had initially requested the audit – that we wanted to improve the book-keeping practices of the Village.

In keeping with our desire to create a working Village government that is competent, effective and transparent to the public, we have acknowledged the issues discussed in the Audit and are actively working to implement an action plan to resolve the areas where correction is needed:

CLERK/TREASURER

Paid Claims – (By way of background, we process approximately 45 to 60 claims per month).

- 8 claims – not approved before payments. Most of these were credit card purchases that were paid on due date.
 - We have changed the due date of the credit card so that purchases will not be paid until after Board approval.
- Claims without supporting documentation – These were credit card purchases where we did not receive receipts.
 - Employees have been notified this will not be tolerated or credit card use will be suspended.
- Overpayments on claims. There was an overpayment on a conference, water chemicals and misc. expenditures.
 - These were notified, and we received checks back or credits on our statements.
- Sales tax was paid.
 - Vendors were notified, and refund was given.

Office Supply purchases –

- The Village Clerk purchases supplies for the office. We were not aware that we can purchase items at the State Bid price. Previous Administration had not been purchasing items at the State bid price. The Auditor reviewed 2 months of purchases and found we could have saved \$170.
 - We have registered as a municipality and we now receive the state bid price on all office supply items.
- Auditor also found that we not receiving the State Bid price from our fuel vendor.
 - The fuel vendor was contacted, and they credited the Village \$3,600.

Payroll –

- 3 full-time employees and 1 part-time employee were paid \$7,500 more than approved in the salary schedule in the adopted budget.
 - o The Village budget shows a schedule of employee compensation as salaries, when in fact the employees are paid hourly. As a result, at year end, any overtime earned by the employees shows up as an overpayment, when it would more accurate to show it simply as OT earned. When the auditor compared the final salary to the budget, it was over the amount approved. We have corrected this error and now show the hourly rate for each employee so that OT will be properly reflected both in the budget and in the bookkeeping.

Unsupported Payment-

- Payment to previous Clerk/Treas. J. Gruschow for a Health Savings Account of \$1000
 - o This payment was made prior to the past Clerk leaving. There was no documentation as to the validity of this payment.
- Paid leave time totaling \$401.00 – inaccurate leave records
 - o This paid leave time has been returned to the Village. It was an oversight on the Clerk's part.
- Dental Plan deduction not made for year. The Clerk did not include the Dental part of the employee's insurance.
 - o Employee has been notified and the amount will be paid to the Village.
- Overpayment of sick and holiday pay to Clerk.
 - o This was an error on the payroll timesheet. The hours have been returned to the Village.
- The Clerk did not use a proper cut-off for payroll at year-end. Overpayment of \$147.
 - o Because the fiscal year ended in the middle of the pay period I should have paid employees at their old rate for the ending of the fiscal and changed to the new rate at the beginning of the next fiscal year. This correction has been made and future end of years will be done accurately.

The timesheets are now being double checked by the Deputy Clerk and the Mayor will certify the payroll.

Bank Reconciliations –

- The bank reconciliations that were done by our accountant have been returned to the Village. The reconciliations are now being done by the Clerk and they are current.

Investments –

The Village's investments were scrutinized by the Auditor. Because she found a statement on one of our investment accounts with a balance of \$0 she did some further investigating. She found that in June 2008 that the **past administration of Jon Bagley** invested \$125,000 in a company called ICON Leasing.

She tracked it back to June 2008, which was the earliest statement found. The company went bankrupt and we lost our total investment. Because she did find that we made \$63,000 in dividends she only reported that we lost \$62,000, however, the entire principal balance of \$125,000 was lost on this investment.