



Village of Sleepy Hollow

Selected Financial Activities

Report of Examination

Period Covered:

June 1, 2009 — March 22, 2011

2011M-175



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2011

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 the Village of Sleepy Hollow, entitled 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 Sleepy Hollow (Village) is located in the Town of Mount Pleasant in Westchester County. The Village is governed by an elected Board of Trustees (Board) which is composed of a Mayor and six Trustees. The Village Administrator and appointed department heads are responsible for the day-to-day management of the Village's activities. The Treasurer is the custodian of Village funds, and is responsible for providing financial reports. The Village's total expenditures for the general fund for 2010 were \$12 million and the 2011 adopted general fund budget was \$13 million.

Scope and Objective

The objective of our audit was to review the Village's procedures and processes for selected financial activities for the period June 1, 2009 to March 22, 2011. We extended our review of cash on hand in the Finance Department to May 2011. Our audit addressed the following related questions:

- Did Village officials develop adequate procedures and/or processes to properly safeguard and account for cash receipts in a timely manner?
- Are police officers' time, attendance and leave accrual records accurate?
- Are the financial records and reports accurate and complete?

Audit Results

Neither the Board nor Village officials developed processes to safeguard and account for cash receipts. Finance Department employees did not always issue pre-numbered duplicate receipts for cash collections. We found three instances where payments totaling \$1,410 were posted as cash but no documentation was provided to show that cash receipts were deposited into the Village's bank accounts. In addition, we found four cash payments totaling \$1,558 that were deposited into the Village's bank account but cash receipts were never posted to the Village's financial accounting system, and two receipts that were posted 13 to 29 business days after they were deposited. As a result, there is an increased risk that cash receipts are not properly accounted for and that loss, theft, or misuse of funds could occur.

The Board's failure to establish written policies and procedures for the Police Department's time and accrual records resulted in inaccurate time and attendance and leave time records. As a result, two police officers received sick leave bonus benefits that they were not entitled to, one officer used compensatory (comp) time three times that wasn't earned, and three officers were allowed to accumulate more comp time than allowed.

The Village's financial records and reports are also not accurate and complete. Due to a lack of Board oversight, the Treasurer's cash control accounts did not reflect actual cash balances and parking permit sticker revenues were incorrectly deposited into the general fund, resulting in unrecorded transfers and the incorrect use of enterprise fund moneys for general fund expenditures. Bank reconciliations have not been completed, in some instances since June 2010, and the Treasurer has not filed the 2009-10 annual financial report with the Office of the State Comptroller and has not provided monthly financial reports to the Board. As a result, the Board's ability to manage financial resources and detect errors or irregularities and the transparency of Village operations are compromised.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agree with our recommendations and indicated that they planned to initiate corrective action, or have already done so.

Introduction

Background

The Village of Sleepy Hollow (Village) is located in the Town of Mount Pleasant in Westchester County. The Village covers approximately five square miles and has approximately 9,870 residents. The Village is governed by an elected Board of Trustees (Board) which is composed of a Mayor and six Trustees. The Board has the power to levy taxes on real property located in the Village and to issue debt. The Village's total expenditures for the general fund for 2010 were \$12 million and the 2011 adopted general fund budget was \$13 million. The police department employs approximately 25 full time officers and is supervised by the Chief, who reports to the Board.

The Village Administrator and appointed department heads are responsible for the day-to-day management of the Village's activities, including overseeing the Finance Department and supervising staff that maintain the financial accounting records and process cash receipts. The Treasurer is the custodian of Village funds and is responsible for receiving and recording Village moneys, reconciling the accounting records to bank statements, providing annual financial reports to the Office of the State Comptroller and the Board, and for providing monthly financial reports to the Board.

Objective

The objective of our audit was to review the Village's procedures and processes for selected financial activities. Our audit addressed the following related questions:

- Did Village officials develop adequate procedures and/or processes to properly safeguard and account for cash receipts in a timely manner?
- Are police officers' time, attendance and leave accrual records accurate?
- Are the financial records and reports accurate and complete?

Scope and Methodology

We examined the Village's cash receipts, police time and leave accrual records, and financial records and reports for the period of June 1, 2009 to March 22, 2011. We extended our review of cash on hand in the finance department to May 2011.

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

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agree with our recommendations and indicated that they planned to initiate corrective action, or have already done so.

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 Village Board to make this plan available for public review in the Clerk's office.

Cash Receipts

The Board and other Village officials are responsible for developing procedures and/or processes to ensure that Village resources, including cash, are safeguarded. These policies and procedures provide assurance that all cash is accounted for, properly documented, recorded, and physically safeguarded until deposited. The Village Administrator is responsible for overseeing the Finance Department and supervising staff that maintain the financial accounting records and process cash receipts. The Treasurer is the custodian of Village funds and is responsible for receiving and recording Village moneys.

Neither the Board nor Village officials developed processes to safeguard and account for cash receipts. Finance employees did not always issue pre-numbered duplicate receipts for all cash collections. We found three instances where payments totaling \$1,410 were posted as cash but no documentation was provided to us to show that cash receipts were deposited into the Village's bank accounts. In addition, we found four cash payments totaling \$1,558 that were deposited into the Village's bank account but cash receipts were never posted into the Village's financial accounting system, and two receipts that were posted 13 to 29 business days after they were deposited. Furthermore, the safe in the finance department was left open during the day giving employees from finance, the Village Clerk and her deputy unlimited access to un-deposited and petty cash. Finally, there were no inventory controls for parking permits which have a value of \$210 or \$150 each.

Policies and Procedures

It is important that the Board adopt policies and Village officials establish written procedures for cash receipts that address the assignment of authority, approval of transactions, protection of assets, periodic reconciliations and analytical reviews. It is important that Village officials clearly communicate these policies and procedures to all individuals involved with cash transactions. Clearly defined and communicated authorizations help establish a substantial framework of internal control.

We found that the Board did not adopt policies and Village officials did not develop and clearly communicate policies and procedures to individuals involved with cash transactions, such as individuals in the Recreation and Parks Department (Parks). Parks collects cash for various programs (afterschool program, meals on wheels, specialty camps, and park rental); however, no formalized process was communicated to the Parks Supervisor. When we reviewed the procedures for cash collections, we found that although the Park's

Supervisor prepared and issued receipts for cash collected at the various sites, it was not always at the time of receiving the cash. In certain instances, the receipts were prepared after the fact, based on the bills and checks received.

When the Parks Supervisor turned over the cash receipts to the Finance Department, she also turned over the duplicate cash receipt book (one of three used by the department, concurrently) as documentation of the receipts. However, there was no formalized process governing how often receipts were required to be turned over to the Finance Department. Checks were held by Parks for one to 15 days from receipt. For example, while we were on site documenting the procedures at Parks, we found the cash box had \$3,000 in cash and checks, and that the corresponding receipts were dated from one to 15 days prior to our visit.

The absence of written policies and procedures inhibits the Board's ability to ensure that Village assets are properly safeguarded, accounting transactions are recorded and reported properly, and that work performed is adequately monitored and routinely reviewed. This increases the risk that Village funds could be lost, stolen or misused.

Recording, Depositing and Posting of Receipts

Village officials must ensure that employees issue pre-numbered duplicate receipts for all cash collections and maintain a daily record of all cash receipts that includes the receipt numbers, with the dates and amounts collected. Employees should total the receipts each day and compare the amounts to the duplicate deposit ticket prepared for that day's receipts. All receipts should be deposited in a timely manner to help prevent loss or theft. Someone other than those collecting the cash and reconciling to the amounts deposited at the bank should review the cash receipt records to verify that they are timely, accurate and complete. In addition, the prompt posting of deposits in the accounting system helps to ensure that the financial records are current and provides assurance that Village moneys are properly accounted for. Delays in the deposit and/or posting of cash payments increase the risk of error or misuse and may misrepresent the actual cash flow. Further, an accurate and up-to-date record of all deposits is necessary for the proper and timely reconciliation of bank statements. Restricting access to the safe and keeping it locked when not in use is a good internal control to securing Village cash. Securing cash limits unauthorized access before it can be deposited in the bank.

The Finance Department receives payments for taxes, user charges (water, sewer, and sanitation), parking permits and various other fees. Neither the Board nor Village officials have established effective safeguards over cash receipts. All finance employees collect payments and prepare bank deposits; however they do not issue pre-numbered

duplicate receipts for payments received or maintain a daily record of all cash collected. In addition, there was no indication that Village officials had exercised any ongoing fiscal oversight activities related to the cash receipts function such as reconciling daily cash receipts or requesting and reviewing periodic cash reports.

Due to the lack of effective cash controls, we reviewed receipts for June and December 2010, the months with high numbers of cash receipts, to determine if payments were posted and deposited in a timely manner. We tested all 166 receipts that were posted to the general fund for the two months and then traced those receipts to the bank statements. We identified receipts that were posted but not deposited and receipts deposited but not posted. For example, three receipts, totaling \$1,410, posted for parking permits did not show on the bank statements. In addition, there was no back up documentation for two of the three cash receipts. We also identified four deposits totaling \$1,558 that included receipts that were never posted to the Village's accounting system. Two receipts were posted 13 and 29 business days after they were deposited.

The Treasurer was unaware of these discrepancies but attributed them to the change of personnel within the Finance Department. These discrepancies result from the lack of effective internal controls and could result in the loss of Village assets.

In May 2011, we reviewed cash on hand that was kept in the safe and found \$562 in an accounts payable folder with no back up information. The administrative intern stated that it was for a reimbursement that an employee made in July 2010 for overages on cell phone usage that he forgot to post and deposit. Also, an additional \$15 was found inside a cash receipts folder without any back up documentation. The Treasurer was not aware that the cash was in the safe.

The safe is located inside the Treasurer's office; however, employees from the Finance Department, the Village Clerk and the Deputy Clerk all have access to the Treasurer's office and therefore access to undeposited cash and prepared deposits in the safe. Only the Village Clerk and Treasurer should have access. The Treasurer stated that the safe is open during the day for employees to keep cash collected. Cash receipts are deposited once a week and brought to the bank by a courier.

When there is a lack of oversight over the cash receipts and a failure to maintain accurate and complete accounting records, the Village is at an increased risk of loss, theft, or misuse of funds. Further, without timely posting of cash, there is an increased risk of errors and Village officials have no assurance that all moneys are being properly

accounted for and deposited into the Village's bank accounts. Finally, when un-deposited cash and prepared deposits are not adequately secured, there is an increased risk that cash will be lost or stolen.

Petty Cash

The Board may, by resolution, establish a petty cash account for incidental delivery or postage charges or for small purchases of materials, supplies or services. The resolution should establish the fund custodian and amount. Petty cash funds should be authorized at the lowest amount practical. It is important that proper records be maintained to account for all petty cash transactions, which includes a list of all the expenditures together with supporting receipts. The custodian of the petty cash account should secure the cash in a locked location and periodically reconcile petty cash on-hand and reimbursed receipts to the petty cash amount authorized by the governing Board.

Village officials did not adequately safeguard petty cash. Although the Board did not formally establish a petty cash account, the Village's balance sheet for fiscal year 2010-11 included \$1,540 as petty cash for the general fund. The Finance and Police Departments each have a share of the petty cash amount. We performed a cash count for both departments and found that the petty cash in the Treasurer's office was short by approximately \$900. The Treasurer could not provide documentation to support any bills supposedly paid with these funds. Although the petty cash was stored in the safe, it was left open during the day giving the employees from the Finance Department, the Village Clerk and Deputy Clerk access to it. The Treasurer does not periodically reconcile the petty cash to ensure that all petty cash is accounted for. Because the Village did not have any controls over funds designated as petty cash, \$900 in funds cannot be accounted for.

Parking Permit Stickers

The Village sells pre-numbered parking permit stickers for approximately 400 spaces in various municipal parking lots. The Village charges \$210 per six-month permit at the municipal lots and \$150 for a space at the train station. The Village's total revenue for the parking permit fees for 2009-10 was \$73,091 and the current year's revenue is \$68,116.¹

The Board and Village officials must ensure that parking permit stickers are protected from loss by adopting effective policies and procedures, maintaining a complete inventory record, and conducting periodic inventories. It is essential to maintain a current inventory of all permit stickers on hand. An accurate inventory is an effective tool that would allow the Village to ensure that all sales are accounted for.

The Treasurer did not provide adequate oversight such as written policies and procedures, supervision over the purchase, security,

¹ As per 2009-10 and 2010-11 revenue control reports for the enterprise fund

inventory, issuance, and receipts for the sale of parking permits. As a result, the Finance Department could not account for all the parking permit stickers. Finance Department employees did not maintain a complete inventory records and conduct periodic inventories of parking permit stickers. Therefore, the Treasurer was unable to trace stickers sold to revenue collected and to stickers on hand to determine the true parking permit revenue. Furthermore, not all revenue collected for the parking permit stickers is deposited in the enterprise fund account. Instead, it is being deposited in and used by the general fund.² The lack of controls over the parking permit stickers exposes the Village to potential revenue loss, and without reliable inventory records, these assets are at increased risk of loss, theft or misuse.

Recommendations

1. The Board should adopt policies and Village officials should establish written procedures to ensure cash collections are adequately accounted for and protected from theft and misuse.
2. The Parks Supervisor should issue receipts at the time cash is received. The \$3,000 held by the Parks Supervisor should be turned over to the Finance Department.
3. The Treasurer should:
 - Issue press numbered duplicate receipts
 - Maintain a daily record of all cash collected and reconcile cash collected at the end of each day
 - Post all cash receipts and make all deposits in a timely manner
 - Retain back up documentation for all receipts.
4. The Treasurer should investigate the three parking permit receipts and determine why they were not deposited.
5. The Treasurer should ensure that all cash receipts are posted to the accounting system in a timely manner.
6. The Treasurer should ensure the safe is locked when not in use to prevent unauthorized access to cash.
7. If the Board intends to have petty cash funds, it should formally adopt a resolution and identify the amounts authorized.

² See records and report section for more details.

8. The Treasurer should periodically reconcile the petty cash on hand and reimbursed receipts to the petty cash amount authorized by the Board.
9. The Board and Village officials should adopt policies and procedures for parking permit stickers that require the Treasurer to:
 - Maintain a complete inventory record of parking permit stickers
 - Conduct periodic inventories of parking permit stickers
 - Deposit parking permit revenue into the enterprise fund account.

Police Time and Leave Accrual Records

It is important for the Board to establish written policies and procedures to ensure that police officers' time and accrual records are accurate so that police officers receive compensation and benefits to which they are entitled. Accurate time and leave accrual records help to ensure that the Village does not make unnecessary payments at taxpayers' expense.

The Board has not established written policies and procedures for Police Department time and accrual records. As a result, two police officers received sick leave bonus benefits that they were not entitled to, one officer used comp time three times that wasn't earned, and three officers were allowed to accumulate more comp time than allowed.

Time Records

Properly designed and maintained individual time records are an important component of effective internal controls over payroll and fringe benefits expenditures. This includes police officers maintaining daily records of hours worked and/or leave accruals used. These records help supervisors and individuals who process payroll to calculate police officers' regular and overtime hours (if applicable) and to update their accumulated leave balances. Time records must contain the information necessary to account for a police officer's entire workday, including starting and ending times, leave charges and meal times. It is important for the Police Chief (Chief) to review and approve the timesheets before they are submitted to payroll to serve as the basis for payment.

While police officers do not maintain or submit timesheets as evidence of hours worked, they are expected to fill out a daily activity sheet which includes the officer's starting and ending shift times, services performed and complaints answered during the shift. However, when a police officer works in the office, he/she is not expected to fill out the activity sheet. When overtime is worked, police officers fill out a three-part form which documents the hours worked, the reason for the overtime and whether the officers would like to receive comp time or overtime wages. The overtime form is submitted to the Lieutenant in charge for the day. Overtime claims are submitted to the Finance Department by the Chief.

The Board has not adopted written policies and procedures covering the preparation, review and approval of the Police Department payroll. Police officers are not required to submit timesheets but receive pay

based on their work schedule.³ We tested the accuracy of 10 police officers' gross pay for the month of June 2009 and December 2010⁴ by tracing their pay rates to the police officers' collective bargaining agreement, daily activity sheets and overtime forms. Although all 10 police officers were paid as per contract, the Village does not have adequate records to determine whether regular time worked was accurate because the daily activity sheets were incomplete. The Chief stated the police officers had never submitted timesheets and there was no process to review the daily activity sheets for accuracy and completeness. The failure to maintain appropriate time records makes it difficult to confirm that the police officers worked the hours for which they received paid.

Leave Accruals

The Police Department's collective bargaining agreement provides unlimited sick leave, but as an incentive not to use sick leave the contract provides paid benefits. Police officers who use less than eight days of sick leave per year receive a bonus of 1 percent of their annual base wage and those who use less than five days per year receive 1.5 percent of their annual base wage. The agreement also allows employees to earn a fixed number of hours of comp time. Comp time is earned and accrued by an employee in lieu of payment for overtime worked. Employees may not accumulate more than 60 hours of comp time for overtime worked. Comp time accumulated is required to be taken within the same fiscal year and any unused balance is paid in the first pay period of the following year. Police officers fill out a three part form for overtime worked and decide whether they would like cash or to earn comp time. A similar three-part form, Request for Time off (RFT), is submitted when sick or comp time is used.

The RFT form is used by Police Department managers to track the police officers' accruals. However, the Chief does not submit this information to the payroll clerk when police officers earn or use their accruals. Therefore, the payroll clerk cannot enter information into her records to allow for a reconciliation between the payroll records and the Chief's records on a periodic basis to ensure accuracy. At the end of the fiscal year, the Chief prepares a memorandum listing the police officers who are entitled to cash for their unused leave benefits. However, due to the lack of information in the Payroll Unit, the accuracy of the calculations cannot be independently verified.

³ The Chief maintains a monthly work schedule for each police officer, where he keeps track of police officers' work schedule and any time off.

⁴ We selected one month from each fiscal year during our audit period.

We reviewed time accruals for 5⁵ of 25 police officers to determine if time accruals were accurately maintained and paid as per contract. We traced all accruals for the 2009-10 fiscal year from a spreadsheet maintained by the Chief to actual RFT forms filled out by each officer and to the payroll check register and determined that two of the five police officers received the wrong sick leave bonus benefit. The two officers used one additional day of sick leave that was not recorded. One police officer inaccurately received the 1 percent sick leave bonus of \$747. The other police officer received the 1.5 percent sick leave bonus when he was only entitled to the 1 percent bonus, resulting in an overpayment of \$443.

The Chief told us that the department does not have a reconciliation process to verify the accuracy of the database. By not having a process to reconcile the database to the source documents, the Village is at risk of not recording sick leave properly, resulting in police officers receiving sick leave bonus benefits to which they are not entitled.

In addition, we reviewed the accuracy of the accruals for comp time for the same five police officers for the 2009-10 fiscal year. We compared the comp time recorded in the database to overtime and RTF forms. The Chief or designee responsible for approving the use of comp time did not follow the collective bargaining agreement. One of the five police officers on three instances used comp time that had not been earned. The last instance, which occurred at the end of the fiscal year, required the police officer to owe five hours of comp time to the Village. The negative balance was carried over to the next fiscal year. We also found that three of the five police officers had accumulated more than 60 hours of comp time. The Chief feels that these errors occurred because the Lieutenants do not verify the police officers' accrual balances before approving their use of comp time and the police officers do not know their comp time balance. By not verifying accrual balance prior to authorizing the use of comp time, police officers received comp time benefits to which they were not entitled.

Recommendations

10. The Board should adopt written policies and procedures for the Police Department's payroll. These procedures should require that officers submit timesheets to document the hours worked. All officers and supervisors should sign timesheets to attest to their accuracy.
11. The Police Chief should submit records to the payroll clerk to indicate when officers earn or use sick time and comp time so that this information can be entered in payroll records.

⁵ Selected randomly

12. The Chief and the payroll clerk should periodically reconcile accrual records.
13. The payroll clerk should independently verify the accuracy of the Chief's payment calculations for unused leave benefits.
14. Police Department managers should verify police officers' accrual balances before approving the use of comp time.
15. Village officials should consider recovering incorrect sick leave bonus payments made to police officers.

Financial Records and Reports

The Board is responsible for the oversight of the Village's financial resources. Accurate and complete accounting records are essential to maintain accountability over financial resources. The Treasurer is responsible for performing the basic accounting functions, including depositing funds, performing monthly bank reconciliations and maintaining adequate accounting records, which provide the basis for monthly reports to the Board. The Treasurer is also responsible for preparing and filing the Village's annual financial report with the Office of the State Comptroller (OSC) following the close of the fiscal year.

The Board failed to properly oversee the Village's financial resources. Consequently, the Treasurer's cash control accounts did not reflect actual cash balances and parking permit revenues were incorrectly deposited into the general fund, resulting in unrecorded transfers and the incorrect use of enterprise fund moneys for general fund expenditures. Bank reconciliations have not been completed, in some instances since June 2010 and the Treasurer has not filed the 2009-10 annual financial report with OSC or provided monthly financial reports to the Board.

Accounting Records

Accounting records must be timely, complete, and accurate to be relevant and useful for the Board and Village officials to manage Village operations properly. Governmental accounting systems should be organized and operated on a fund⁶ basis. The Treasurer is responsible for maintaining the Village's financial records.

As of April 2011, none of the cash control accounts (book balances) reflected the actual balances. Village officials use bank statements and online banking to determine the amount in each Village account. Village records are not correct because bank reconciliations are not done in a timely manner and are incomplete. The Treasurer explained that, due to the staff turnover within the Finance Department and training of new employees, bank reconciliations were not up-to-date. The most recent bank reconciliations for the general fund, taxes and water fund were done for the month of June 2010, but that reconciliations were not done correctly. The Treasurer explained that the balances brought forward from the old accounting system were

⁶ A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equity or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

incorrect and they are waiting on the CPA to provide the adjusting entries for the beginning balances in all the accounts for June 2010.

By not performing monthly bank reconciliations in a timely manner, officials may not be aware of errors and/or irregularities. Also, Village officials cannot be assured that account balances are accurate or that they reflect the true financial position of the Village.

Revenue collected for the sale of parking permit stickers is incorrectly deposited to the general fund checking account, allowing the Treasurer to use parking permit revenue to pay general fund expenditures. However, the revenue and the corresponding cash should be reported in the enterprise fund. Depositing the parking permit revenue into the general fund account resulted in an unauthorized transfer of funds from the enterprise fund to general fund. It also provides additional cash flow to the general fund on which the Village improperly relied.

Financial Reports

Accounting records and procedures are needed to manage Village operations. Properly prepared financial reports require that the financial records be accurate and maintained in a timely manner. The Treasurer is responsible for filing the Village's annual financial report with OSC within 90 days following the close of the fiscal year. The annual financial report allows management and the general public to assess the Village's financial operations and financial condition. In addition, the Treasurer should be providing periodic financial reports to the Board throughout the year.

The Treasurer has not filed the Village's annual financial report with OSC for the 2009-10 fiscal year. We believe that the Village's lack of complete accounting records precluded the Treasurer from filing the required report. However, the Treasurer, who was appointed in July of 2010, stated that a primary reason for not filing the report is a result of waiting for the CPA report which also has not been completed for 2009-10.

We also found that the Treasurer had not been providing the Board with periodic financial reports during the year for use in monitoring Village operations. The lack of periodic reporting and untimely 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 or irregularities may occur and go undetected and uncorrected. In addition, the transparency of Village operations is compromised because the public does not have the opportunity to review the Village's financial operations and assess its financial condition.

Recommendations

16. The Board should establish procedures to ensure that the Treasurer performs accurate, complete and timely monthly bank reconciliations.
17. The Treasurer should ensure that the parking permit revenue is segregated from the general fund and deposited into the enterprise fund account.
18. The Treasurer should file the Village's annual financial report within 90 days following the close of the fiscal year.
19. The Treasurer should provide periodic financial reports to the Board during the year for use in monitoring Village operations.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Village of Sleepy Hollow

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December 14, 2011

Mr. Christopher J. Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553-4725

Dear Mr. Ellis:

RE: Draft Audit Report 2011M-175 for period June 1, 2009 through March 22, 2011

On behalf of the Village of Sleepy Hollow, I am writing to acknowledge receipt of the Comptroller's audit of Selected Financial Activities of the Village conducted by members of your staff for the period from June 1, 2009, to March 22, 2011, and to convey our appreciation for the time and effort of your staff throughout the audit process. The Village is proud of the recent changes we have made in the management and oversight of our fiduciary responsibilities and welcomes guidance that may help us improve upon current practices and procedures.

Given the scope of the audit and the examination of cash on hand, the Village is pleased that the Comptroller's Office found no evidence of fraudulent activity or significant financial problems, and actually witnessed several implementations which began to address some of the issues identified. While the Village generally agrees with the recommendations included in the audit report and shares the Comptroller's commitment to strengthen controls intended to safeguard local government assets, there are several clarifications which we would like to make in response to the findings of this audit report.

The following constitutes the Village's response, which shall be followed with a formal Corrective Action Plan as required after the final audit report is issued. Many of the recommendations found in the audit have already been implemented.

I. CASH RECEIPTS

Response to recommendations 1-9:

Many of the recommendations contained in this section have already been implemented. As discussed during the exit conference, the Board hired our current Treasurer six months prior to the audit; with the previous Treasurer not employed by the Village for over four months before that. At the time of the audit, the Village was in the middle of a full conversion to and training for a new Financial System, while being down one full time employee and training a new hire. We believe these staffing issues contributed to the processing discrepancies identified in the audit. The “receipts” discrepancies have been reviewed and it has been determined that the \$1,410 were duplicate parking permit receipts which have since been reversed; and the \$1,558 were legitimate unposted receipts which have since been posted. The staff is now using press-numbered duplicate receipts and reconciles and maintains a daily record of all cash collected.

The Board and Village Officials began reviewing policies and procedures to safeguard cash receipts with Department Heads and staff prior to the audit. We completely agree with your recommendations on written procedures and are continuing to work on revisions and new policies. One example of this, as identified in the audit, is that previous Boards never formally established a petty cash account. We will do this at the next organizational meeting so that there is a definitive cash amount authorized by the Board for staff to reconcile to. Past records suggest the account had never been reconciled to the financial statements.

Since the audit, the Treasurer has also changed the method for keeping track of the Parking Permit stickers. Instead of using an antiquated database which overwrites permit numbers, the staff will be using spreadsheet software to maintain a complete inventory of all parking permit stickers and receipts. In addition, all employees have now been trained in the new Cash Receipts system and transactions are currently being posted in a timely manner and to the correct funds.

II. POLICE TIME AND LEAVE ACCRUAL RECORDS

Response to recommendations 10-15:

The Board agrees with your recommendations regarding written policies and procedures for the police department payroll. We understand that these procedures should require officers to submit timesheets to document their hours worked, and which should be signed by all officers and supervisors. Although this has not been a past practice, the Chief of Police is working on a monthly activity report which will include all time worked, all time taken off and a verification signature. He is also waiting on a collective bargaining contract settlement which will include an evaluation procedure to be included in this particular activity report.

In regard to time records, the Police Chief has begun submitting monthly sick and comp time usage and accrual reports to the Payroll Clerk. A process has been implemented whereby the Chief and Payroll Clerk will reconcile accrual records on a quarterly basis. Officers are also now required to request time off only when a Supervisor is on duty and available to verify all accrual balances in order to approve the use of comp time.

The Board and Village Officials are seeking reimbursement for incorrect sick leave bonus payments made to certain police officers, in the amounts of \$747 and \$443.

III. FINANCIAL RECORDS AND REPORTS

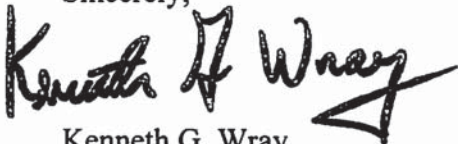
Response to recommendations 16-19:

The Board concurs that accurate and complete accounting records are essential to maintain accountability over financial resources. During the period of your audit, which was from June 1, 2009 through March 22, 2011, the previous Treasurer resigned. This resulted in bank accounts and ledger controls not being reconciled for over seven months. In July of 2010, the Board appointed a new Village Treasurer who recommended replacement of an antiquated system, and soon the conversion to a new Financial System began. Unfortunately within a few weeks, the staff was reduced by two persons due to retirement and medical leave. In addition, the Board determined to retain a new audit firm. Due to these extraordinary circumstances, the 2009/2010 fiscal year audit was not completed until the Fall of 2011. This delayed the filing of the annual report to the OSC until October, 2011. Although these circumstances led to some delays in reporting, the Board feels strongly that the change in Treasurer, personnel, Financial System, and auditing firm were crucial to meeting our oversight responsibilities.

The Village now has a comprehensive and efficient Financial System which has integrated three different systems and automated many manual duties. The Treasurer has established procedures and controls to ensure bank reconciliations are done on a timely basis and that financial reports are distributed to the Finance Committee and Board periodically. In addition, the parking permit revenue has been segregated accurately through proper employee training. The Treasurer will strive to file all future annual financial reports to the OSC within 90 days following the close of the fiscal year.

In conclusion, I want to again thank you and your staff for your recommendations and expertise. Our goal as a Board is to efficiently manage operations and provide transparency, while ensuring our residents continue to be provided with excellent service at the lowest possible cost. The Village will continue to monitor its systems and controls and continue in its efforts to safeguard Village assets.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth G. Wray". The signature is stylized with a large, sweeping "K" and a long, horizontal stroke at the end.

Kenneth G. Wray
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To determine if the Board and the Village officials had properly designed and implemented internal controls over the selected audit areas for the period June 1, 2009, through March 22, 2011, we took the following approaches to obtain valid audit evidence:

- We interviewed Village officials and employees and reviewed Board minutes to gain an understanding of the procedures used to control cash assets and record cash receipts.
- We reviewed the Village's financial records and reports, tested selected records and transactions, and examined pertinent documents to determine whether cash receipt transactions were posted and deposited in a timely manner.
- We counted the petty cash and reviewed receipts located in the Finance Department and Police Department.
- We reviewed parking permit reports and bank statements.
- We interviewed the Police Chief to gain an understanding of the procedures for payroll recordkeeping.
- We reviewed the Police Department's collective bargaining agreement.
- We reviewed the Overtime Summary by Officer reports (fiscal year 2009-10 and 2010-11) and selected the top 10 police officers who worked the most overtime for each year. We verified that overtime was approved by supervisors and paid as per contract.
- We selected five police officers and verified that leave time and comp time used was requested, authorized, approved and recorded for 2009-10 fiscal year. We also verified that time accrued was as per contract language. We traced all accruals for the 2009-10 fiscal year that were recorded in the database to the Request for Time off forms to determine if accruals were accurately entered into the database and if the officers were paid leave benefits as per the collective bargaining agreement.
- We reviewed police officers' work schedules and daily activities sheets.
- We reviewed 2009-10 and 2010-11 revenue control reports for the enterprise fund.
- We examined bank reconciliations, deposit slips, and bank statements.

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 C

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