



Town of Almond

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

January 1, 2010 — June 7, 2013

2013M-209



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2013

Dear Town 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 Town 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 Town of Almond, 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 Town of Almond (Town) is located in Allegany County and has approximately 1,600 residents. The Town's 2013 budget totals approximately \$916,000 and includes, among other things, general administration, street maintenance, snowplowing, and fire protection, which are funded primarily with real property taxes and State aid.

The Town is governed by an elected five-member Town Board (Board) consisting of the Supervisor and four Councilpersons. The Supervisor is also the Town's chief fiscal officer, responsible for maintaining the Town's financial records. The Town Clerk (Clerk), who is also the Tax Collector, is responsible for collecting, accounting for, depositing, remitting, and reporting various fees and property taxes. While the Town's Justice opens the mail and receives payments on occasion, the court clerk performs virtually every aspect of cash handling and accounting for the Court.

Scope and Objectives

The objectives of our audit were to examine the Town's financial management practices from January 1, 2010, to June 7, 2013; internal controls over the Clerk's cash receipts from January 1, 2011, to the date of the Clerk's resignation on March 7, 2013; and internal controls over the Court from January 1, 2012, to June 7, 2013. Our audit addressed the following related questions:

- Does the Board properly manage Town finances by ensuring that budgets are reasonable and supported?
- Is the Board ensuring that internal controls over the Clerk's operations are effective and that assets are protected from loss or misuse?
- Are internal controls over Court operations properly designed and operating effectively to allow for the complete and accurate accounting of all financial activity?

Audit Results

The Board has not adopted a policy and Town officials have not developed procedures to address the level of unexpended surplus fund balance¹ to be maintained. The Board's overly conservative

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

budgeting practices have resulted in the Town continuing to maintain excessive unexpended surplus fund balances in all four major operating funds. Specifically, at fiscal year-end 2012, the general fund-town-wide's unexpended surplus fund balance was 69 percent of budgeted appropriations for 2013, the general fund town-outside-village's was 106 percent, the highway fund town-wide's was 63 percent, and the highway fund town-outside-village's was 85 percent. Maintaining a substantial fund balance in addition to budgeting conservatively results in a higher tax levy than necessary.

Internal controls over cash receipts in the Clerk's office were not appropriately designed or operating effectively, which provided the Clerk with an opportunity to misappropriate funds. The Clerk did not issue duplicate receipts, adequately record certain receipts or make deposits intact. In addition, she did not perform monthly accountability analyses. We also found that the Board failed to audit the records of the Clerk and Tax Collector as required. Had the Board ensured that proper controls were in place, it may have been in a better position to detect or prevent the shortage of \$3,385 in tax receipts and \$400 in Clerk receipts as of March 7, 2013.

The Board also failed to audit the Court's records as required. Had the Board conducted the annual audit of the Court, it may have been in a position to detect the shortage of \$105 at March 31, 2013.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated that they plan to initiate corrective action. Appendix B includes our comment on an issue raised in the Town's response letter.

Introduction

Background

The Town of Almond (Town) is located in Allegany County (County) and has approximately 1,600 residents. The Town's 2013 budget totals approximately \$916,000 and includes, among other things, general administration, street maintenance, snowplowing and fire protection, which are funded primarily with real property taxes and State aid.

The Town is governed by an elected five-member Town Board (Board) consisting of the Supervisor and four Councilpersons. The Board provides guidance through the enactment of policies and procedures, adoption of the annual budget, and the approval of all contracts. The Supervisor is the Town's chief fiscal officer, responsible for maintaining the Town's financial records. The Town Clerk, (Clerk) who is also the Tax Collector, is responsible for collecting, accurately recording, and timely depositing, remitting and reporting various fees and property taxes. While the Town's Justice opens the mail and receives payments on occasion, the Court clerk performs virtually every aspect of cash handling and accounting for the Court.

Objectives

The objectives of our audit were to examine the Town's financial management practices and internal controls over select financial activities. Our audit addressed the following related questions:

- Does the Board properly manage Town finances by ensuring that budgets are reasonable and supported?
- Is the Board ensuring internal controls over the Clerk's/Tax Collector's operations are effective, and assets are protected from loss or misuse?
- Are internal controls over Court operations properly designed and operating effectively to allow for the complete and accurate accounting of all financial activity?

Scope and Methodology

For financial management we reviewed the Town's records and reports from January 1, 2010, to June 7, 2013. For the Clerk, we conducted our testing from January 1, 2011, to March 7, 2013. We reviewed the Court's records and reports from January 1, 2012, to June 7, 2013. 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 is 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 Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated that they plan to initiate corrective action. Appendix B includes our comment on an issue raised in the Town'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 Town Clerk's office.

Financial Management

The Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers that fund its operations. This responsibility requires the Board to balance the level of services desired and expected by Town residents with the ability and willingness of the residents to pay for such services. The Board must adopt structurally balanced budgets for all operating funds that provide for sufficient revenues to finance recurring expenditures. The Town may retain a reasonable portion of fund balance, referred to as unexpended surplus funds,² to use as a financial cushion in the event of unforeseen financial circumstances.

In addition, the Town can legally set aside and reserve portions of fund balance to finance future costs for a variety of specified objects or purposes. It also is important that the Town has long-term plans in place to ensure that moneys accumulated in operating funds are used for appropriate and authorized purposes. Therefore, the Board should maintain a reasonable amount of fund balance and adopt budgets that include realistic estimates of revenues and expenditures and use surplus fund balance as a funding source, when appropriate. Finally, it is important that Town officials account for revenues and expenditures in appropriate funds to ensure taxpayer equity.

Fund Balance – The Board has not adopted a policy and Town officials have not developed procedures to address the level of unexpended surplus fund balance to be maintained. The following table illustrates unexpended surplus fund balance trends for fiscal years 2010 through 2012:

² The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term ‘unexpended surplus funds’ to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year’s budget (after Statement 54).

Table 1: Unexpended Surplus Fund Balances at Year End as a Percentage of the Ensuing Year's Budget								
Fiscal Year End	General Fund Town-wide	%	General Fund Town-Outside-Village	%	Highway Fund Town-wide	%	Highway Fund Town-Outside-Village	%
2010	\$139,818	49%	\$8,381	30%	\$262,065	27%	\$283,080	139%
2011	\$153,486	50%	\$17,641	54%	\$285,603	49%	\$296,414	108%
2012	\$169,388	69%	\$30,212	106%	\$336,760	63%	\$276,290	85%

The Board consistently underestimates revenues and/or overestimates expenditures in these funds, which results in operating surpluses. The Board's overly conservative budgeting practices resulted in the Town continuing to maintain excessive fund balances in its four major operating funds. The Town has more than adequate resources to address unexpected occurrences that may be encountered.

An important aspect of budget preparation includes a reasonable estimate of the amount of fund balance that will be available in each fund at the end of the fiscal year. Information concerning the amount of fund balance available for appropriation impacts the amount of tax levy needed to fund the subsequent fiscal year's budget.

When budgets are small, as is the case with the Town, a reasonable fund balance may be a higher percentage of the next year's expenditures than may be prudent in a larger municipality. However, maintaining a substantial fund balance in addition to budgeting conservatively results in a higher tax levy than necessary. In this case, the Town is not just keeping large fund balances – it is adding to the already large fund balances.

Erroneous Accounting Entries – We found that \$55,307 and \$65,000 of CHIPs³ revenues were erroneously reported in the highway town-wide fund in 2011 and 2012, respectively. These road maintenance and improvements were required to be accounted for in the town-outside village fund. The Supervisor stated the former bookkeeper believed that a portion of this State aid should be a town-wide revenue because Town machinery⁴ was used for the road projects that were funded with the CHIPs aid.

As a result of these erroneous accounting entries, the highway town-wide fund owes the highway town-outside-village fund \$120,307. The reported unexpended surplus fund balance in the highway town-wide fund at December 31, 2012 should have been \$216,453 and the highway town-outside village unexpended surplus fund balance should have been \$396,597.

³ Consolidated Local Street and Highway Improvement Program

⁴ The Town accounts for highway machinery in the highway town-wide fund.

Recommendations

1. The Board should adopt budgets that contain more realistic revenue and expenditure estimates.
2. The Board should develop a plan to reduce the unexpended surplus fund balance in its operating funds. If the Board believes it is necessary to accumulate money for future planned purposes, it should establish reserve funds.
3. The Supervisor should correct the accounting records to properly reflect the amount the highway town-wide fund owes the highway town-outside-village fund and repay the amount due.

Town Clerk and Tax Collector

The Town Clerk (Clerk) also performs the functions of the Town Tax Collector (Collector). The Clerk is responsible for receiving, recording, depositing, disbursing, and reporting all moneys collected in an accurate and timely manner. This requires maintaining complete and accurate accounting records, ensuring that moneys received are safeguarded, promptly depositing moneys received into the Clerk's and Collector's bank accounts, and disbursing those moneys to the appropriate parties. It is the Board's responsibility to provide adequate oversight of the Town's financial affairs and to audit, or cause to be audited, the books and records of the Clerk and the Collector on an annual basis.

Internal controls over cash receipts in the Clerk's office were not appropriately designed or operating effectively, which provided the Clerk/Collector with the opportunity to misappropriate funds. The Clerk/Collector did not issue duplicate receipts, record certain receipts, or make deposits intact. In addition, she did not perform monthly accountability analyses. We also found that the Board failed to audit the Clerk's and Collector's records as required. Had the Board ensured that proper controls were in place, it may have been in a better position to detect or prevent the shortage of \$3,385 in tax receipts and \$400 in Clerk receipts as of March 7, 2013, the effective date of the Clerk's resignation.

Collector Activity

The Clerk, as Collector, is authorized and directed by the tax warrant to collect the taxes from the property owners listed on the tax roll. Town Law requires all tax payments to be deposited intact⁵ within 24 hours of receipt. The Collector should retain the tax receipt stub and document the date paid and the amount and method of payment (i.e., cash or check). Real Property Tax Law requires the Clerk to receive payments during January without penalty, and payments during February and March with the late payment penalty stated on the tax bill. Town Law requires that the Clerk remit all deposits and late payments to the Supervisor at least once each week until the Town's portion of the tax levy is satisfied, and to remit all residual tax collections to the County Treasurer by the 15th of each month following their receipt.

At the end of the collection period, the Clerk is required by Real Property Tax Law to settle with the County Treasurer. At the time of settlement, the Clerk must account for the taxes collected, the amount of taxes remitted to the Supervisor, the amount previously

⁵ In the same amount and form (cash or check) as received

remitted to the County Treasurer, any adjustments to the tax roll, and the taxes that remain unpaid. After the Clerk has settled with the County, there should be no further activity and all amounts collected should be remitted to the appropriate parties, including penalties for late payments.

Receipts and Deposits – The Clerk failed to adequately record receipts and deposits, and could not provide reasonable explanations for differences between her collection records and bank deposits. The Clerk did not indicate the date, amount paid, or method of payment on the portion of the tax bill that she retained. The collection records for 2012 also did not indicate the payment date. We compared collection records⁶ with compositions of deposits obtained from the bank and found that deposits were not made intact.

During the 2011, 2012, and 2013 tax collection periods, the Clerk deposited tax payments totaling \$3,385⁷ to her Collector bank account that she did not record or remit to appropriate parties, apparently substituting them for cash receipts that were recorded but not deposited. These tax payments included penalties, overpayments, a collection error, and unauthorized second notice fees added by the Clerk. For example, in 2011 a taxpayer made a payment of \$164.60. In error, the bank deposited his check for \$1,621.60. The Clerk reported his payment at the base amount of \$162.97 with no indication that she returned the overpayment to the taxpayer.

Also in 2011, a taxpayer remitted \$437 in school taxes to the Clerk in error. This amount was deposited into the Collector's bank account but not reported in her tax collection records, remitted to the school district, or returned to the taxpayer. In 2012, the Clerk charged 26 taxpayers a \$1 fee for sending them a second tax bill. The Allegany County Treasurer's office confirmed that the Town was not authorized to collect this fee. The Clerk did not record the collected fees or remit them to the Supervisor.

The Clerk stated that these differences occurred because she had lost payments collected in both 2011 and 2012 and was purposely not reporting late payment penalties in an attempt to make up the difference in each year. She was unable to identify who made the payments she allegedly lost or the amount of the payments.

Remittance to the Supervisor – The Clerk stated that she did not remit late payment penalties to the Supervisor until after she had settled

⁶ We obtained a 2012 collection report from the County that did include collection dates.

⁷ This total consisted of 50 unreported payments totaling \$2,500 in 2011, 38 totaling \$586 in 2012, and seven totaling \$299 in 2013.

with the County. In August 2012, she paid \$1,875 in penalties to the Supervisor after our office conducted an on-site risk assessment and found that her Collector bank account had a balance. In December 2012, after we notified the Town that we would be initiating an audit, the Clerk apparently found \$1,233 in cash in the Town's vault. She stated that she was unable to identify the source of the cash, suggesting that it must have been a tax payment that she had not previously deposited. After she deposited this amount into her Collector bank account, she paid it over to the Supervisor as penalty moneys. Interestingly, this amount equaled the balance of recorded penalties she owed to the Supervisor for the 2012 tax collection period.

Clerk Activity

The Clerk's office collects receipts for a variety of purposes. All of these moneys must be remitted by the Clerk to the Town, County, or State. It is essential for the Clerk to account for all transactions. Therefore, the use of press-numbered duplicate receipts, which document individual cash collection activities, helps ensure that all transactions are properly recorded in the accounting records. Moreover, General Municipal Law requires that duplicate receipts be issued where no other form of documentation is available to evidence a payment to the Clerk.

Town Law requires that all moneys collected by the Clerk's office be deposited within three business days after the total collected exceeds \$250. The use of duplicate deposit slips aids in determining if receipts are deposited timely and intact when these are compared to cash receipt records. Further, performing a monthly bank reconciliation and accountability provides the Clerk an opportunity to verify the accuracy of her financial records by reconciling a listing of Clerk liabilities with cash on hand and on deposit in the bank. Analyzing and documenting her office's liabilities would demonstrate that the Clerk is appropriately addressing her custodial responsibilities.

The Clerk failed to issue duplicate receipts where no other evidence of receipt was available and failed to record certain receipts in her records, which provided her with an opportunity to misappropriate Town funds without detection. Evidence of a transaction occurring was limited to what was entered into the computerized application used to record financial transactions, New York State Department of Environmental Conservation (DEC) licenses, and deposited checks.

We also found that receipts were not deposited intact. For example, the Clerk deposited checks into the Clerk account that did not match any transactions in her monthly reports. These checks included unrecorded receipts of \$334 in 2011 and \$168 in 2012. The Clerk also deposited personal checks totaling \$555 in 2011 and \$264 in 2012.

that she apparently substituted for recorded un-deposited receipts that were paid in cash.

Since the Clerk did not perform monthly accountability analyses, we performed an analysis of her records and found that her known liabilities exceeded her assets as of March 7, 2013.

Table 2: Town Clerk Shortage, as of March 7, 2013	
Unpaid 2010 Activity	\$20.94
Unrecorded Checks	\$501.75
Unpaid Liabilities (2011 – January 2013)	\$41.60
Unremitted February and March 2013 Receipts	\$145.00
Total Liabilities	\$709.29
Less Reconciled Bank Balance	\$309.70
Less Cash on Hand	\$0
Shortage	\$399.59

The Clerk's failure to accurately account for Town funds resulted in this shortage and increased the risk that Town moneys could be lost or misappropriated.

Board Oversight

Town Law requires that the Board annually audit the Clerk's records and reports or hire a public accountant for that purpose. In conducting its reviews, it is important for the Board to determine whether effective procedures are in place to ensure that the Clerk properly accounts for, records, and deposits moneys collected on a timely basis. For the tax collection process, the review should include analyzing the settlement sheet and inquiring of the County Treasurer if there are any concerns with the Collector's records or accounting at the time of settlement. Collection records also should be reviewed to ensure the Supervisor received all late payment penalties that were collected.

The Board did not audit the Clerk's records. The Board also did not review the Clerk's real property tax settlement with the County or her collection reports to determine the amount of penalties collected. Because the Board did not perform its oversight duties, errors and irregularities occurred and were not identified and corrected in a timely manner.

Recommendations

4. The Board should provide documentation to law enforcement officials concerning the possible misappropriation of Town moneys.

5. The Supervisor and Clerk should ensure all payments made in error are refunded to the individual taxpayers to whom they are owed.
6. The Clerk should remit tax collections, including penalties, to the Supervisor on a weekly basis. The Supervisor should ensure penalties remitted to him agree with penalties recorded on tax collection reports.
7. The Clerk should issue duplicate receipts, recording the date, amount, and form of payment, for all moneys received where no other form of receipt is available. The Clerk should retain all evidence of receipt.
8. The Clerk should accurately record all collections in her cashbook and deposit all collections in the bank intact and in a timely manner.
9. The Clerk should remit all funds collected to the appropriate entities on a timely basis.
10. The Clerk should prepare monthly accountabilities.
11. The Board should perform an adequate annual audit of the Clerk's records, as Clerk and as Tax Collector, and should document the records reviewed and the results of the audit in the Board minutes.

Justice Court

Town Justices are responsible for adjudicating all civil, criminal, vehicle and traffic, and small claims cases brought before their Courts. They are also responsible for establishing internal controls to ensure that all fines and fees received are properly recorded, remitted, and protected against the threat of loss or theft. To accomplish this, Justices must maintain complete and accurate accounting records, and deposit and disburse cash in a timely manner. They must also reconcile all cash activity, complete monthly accountabilities confirming that money on hand is properly accounted for, and segregate incompatible duties between Court employees. In addition, they must report monthly to the Office of the State Comptroller's Justice Court Fund (JCF) the financial activities of the preceding month and disburse amounts collected either to the JCF or the Supervisor. The Board is required to perform an annual audit of the Justice's records, by itself or by engaging the services of an independent public accountant.

While the Town's Justice opens the mail and receives payment on occasion, the court clerk performs virtually every aspect of cash handling and accounting for the Court. This includes collecting cash, processing mail, preparing deposits, recording cash receipts and disbursements in the cashbook, performing reconciliations and accountabilities, preparing monthly reports, and processing adjudicated cases. She also maintains all Court records, including the record of bail held in connection with pending cases. While the Justice has attempted to establish mitigating controls by taking all deposits to the bank and reviewing bank reconciliations and monthly reports, these practices were not sufficient to provide assurance that errors could be detected in a timely manner and protect against the threat of fraudulent activity.

We prepared an accountability for the Court as of March 31, 2013, and found a cash shortage of \$105. Due to this deficiency, we examined cash receipts and disbursements for the period January 1, 2012, to March 31, 2013. Fines and fees collected appeared to be deposited intact and within 72 hours as required, and generally appeared to be appropriately reported to the JCF as required. However, we found errors in the Court's receipts and disbursements records, as indicated below.

- On March 5, 2013, a fine of \$875 was deposited, but was recorded as being collected on April 29, 2013. Since the system that is used to generate reports for the JCF relies on the dates entered, this receipt was reported to the JCF for April,

not March. Recording inaccurate receipt dates can result in untimely remittances and facilitate kiting⁸ of receipts.

- In September 2012, the Justice collected \$350 bail for an arraignment that he presided over for another court. In the same month, the clerk remitted the bail to the other court, for which she is also the court clerk.⁹ However, she reported it to the JCF for the Town's Court for September 2012. The JCF refunded \$350 to the Court in March 2013. Similarly, \$1,340 was transferred to other courts, in which the court clerk is employed, from October 2012 through February 2013, as a result of arraignments performed by the Town's Justice for the other courts. Again, these transfers were necessary because the court clerk made recording errors. Recording receipts inaccurately can result in untimely remittances and facilitate kiting of receipts.
- In September 2012, a fine totaling \$125 was paid by credit card; because a previous partial payment of \$50 had been received and reported for this fine in June 2011, \$75 was reported and submitted to the JCF. However, the check to refund the overpayment to the defendant was drawn for \$75; therefore, the Court overpaid this refund by \$25.
- In May 2012, an initial partial payment of \$50 was collected, but the total fine (\$130) was reported to the JCF. In August 2012, another partial payment of \$50 was collected and remitted to the JCF. Therefore, \$100 was collected, but \$180 was reported, resulting in an \$80 overpayment to the JCF.

When records are not maintained in an accurate and complete manner and the Justice fails to provide adequate oversight, the likelihood of errors or fraudulent activity occurring and going undetected dramatically increases.

An annual accounting to, and audit by, the Board provides an added measure of assurance that the Justice's records and reports contain reliable information and gives the Board the opportunity to monitor the Court's fiscal procedures. The Court records we reviewed provided no evidence that the Board had audited the Court, or hired someone to complete the annual audit of the Court, as required. Had the Board conducted the annual audit of the Court as required, or hired an

⁸ Kiting is when current receipts are used to cover previous liabilities.

⁹ The same individual is court clerk for the Town of Dansville, Town of Alfred, and Village of Alfred.

independent public accountant to do so, the deficiencies found during this audit would likely have been identified and corrected in a more timely manner.

Recommendations

12. The Justice should ensure that receipts are accurately recorded and reported to the JCF.
13. The Board should either conduct the required annual audit of the Justice's records or hire an independent public accountant to perform the audit.

APPENDIX A

RESPONSES FROM LOCAL OFFICIALS

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

TOWN OF ALMOND

MUNICIPAL BUILDING

PO BOX K

ALMOND NY 14804-0511

607-276-6665

Richard Stuart, SUPERVISOR

Arlene McMahon, CLERK/COLLECTOR

October 11, 2013

The Town of Almond submits this letter as its written response to the Report of Examination, 2013M-209, covering the period from January 1, 2011 to June 7, 2013, regarding the financial operations of the Town of Almond.

Preliminary Audit Results (with Town Response):

1. The Board has not adopted a policy and Town officials have not developed procedures to address the level of unexpended surplus fund balance to be maintained.

The Corrective Action Plan, to be submitted by the Town, will include a policy regarding the size of the unexpended fund balance in relation to the annual operating budget.

2. The Board budgeted overly conservatively, resulting in a higher tax levy than was necessary.

This is a conclusion which does not appear to be supported by the audit findings. The town highway departments has been able to extend the life of the town's capital assets past the point of expected replacement, resulting in year end balances when a particular budgeted item did not need to be

See
Note 1
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purchased within that budget year. Much of the extra surplus in the unexpended fund balance reflects this practice. The amounts which were budgeted for capital expenses will need to be retained, both in the budget and in reserve funds, for those upcoming capital purchases.

The Corrective Action Plan, to be submitted by the Town, will include a plan to earmark current excess unexpended funds for the related upcoming capital expenses.

3. Internal controls over cash receipts in the Clerk's office were not appropriately designed or operating effectively, and the Board failed to audit the records of the clerk, tax collector and justice, resulting in a shortfall by the Town Clerk.

The Town Clerk/Tax Collector is an independently elected official. The clerk in office during the period of examination has resigned and (upon belief) has paid restitution in the amount of \$3,385, pursuant to preliminary findings of the audit. The Town will cooperate with the District Attorney should he decide to open a criminal investigation.

The Corrective Action Plan, to be submitted by the Town, will include policies adopted by the Town Board as to the handling of cash and deposits by Town officials, as well as a policy as to independent auditing of records by a financial professional and frequency thereof.

The Town's Corrective Action Plan will also include a plan to reimburse those taxpayers who were incorrectly charged.

Submitted by:

Richard Stuart,
Town Supervisor

Dawn Wildrick-Cole
Deputy Town Supervisor

ALMOND TOWN COURT
1 Marvin Lane
Almond, NY 14804

PAUL T. JOHNSON
Town Justice

Phone: (607) 276-2138
Fax: (607) 276-6630

SEPTEMBER 23, 2013

UNIT NAME: ALMOND TOWN COURT
AUDIT REPORT TITLE: TOWN OF ALMOND
INTERNAL CONTROLS OVER SELECTED FINANCIAL ACTIVITIES
AUDIT REPORT NUMBER: 2013M-209-

AUDIT RECOMMENDATIONS:

12. The Justice should ensure that receipts are accurately recorded and reported to JCF (JUSTICE COURT FUND)

IMPLEMENTATION PLAN OF ACTION:

The Almond Town Justice Court computer program is leased from [REDACTED] Victor, NY, 14564. This program is used by most all courts in NY State. This program governs all court activity, and prints duplicate receipts for all monetary transactions. (It should be noted that a review of the complete Town of Almond audit, "Duplicate Receipts" were mentioned eight (8) times on six (6) pages of the report, so it is clear the "Duplicate Receipts" are a "Must" for accountability in the justice court record keeping).

The existing [REDACTED] program used by the Almond Town Court allows for receipt numbers to be changed should a defendant "overpay" or "underpay" a fine. This could complicate the audit procedure if a receipt number for the same violation is changed because of an improper payment by a defendant. [REDACTED] has since developed a new program that requires a "paper trail" for any change in receipt numbers, thus making an audit much more efficient.

- The Justice Office is recommending to the Almond Town Board to fund the [REDACTED] program to be installed in the Almond Town Court computer.
- The Town Justice will be more diligent to ensure that all fines collected are reported to JCF during the month they are collected.
- Bail money collected for other courts has been problematic from time to time, so a new procedure will be implemented to ensure that bail money collected for other courts is forwarded to the proper court in a timely manner.

IMPLEMENTATION DATE: These procedures will be implemented October 1, 2013.

13. The Justice recommends to the Almond Town Board that a yearly audit of Justices records be conducted by either a C.P.A. or a person or firm with audit abilities.

PERSON RESPONSIBLE FOR IMPLEMENTATION:

Almond Town Justice Paul T. Johnson

Signed: _____

Paul T. Johnson
Almond Town Justice

Date

10/24/2013

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

The report states, “*maintaining a substantial fund balance in addition to* budgeting conservatively results in a higher tax levy than necessary.” We recommended that the Board establish a reserve fund if it desires to accumulate money for a future planned purpose. If a capital purchase was budgeted but not made in that year, an operating surplus could result. Establishing a reserve for the capital purchase using the operating surplus would formally “ earmark” these moneys and better communicate the Board’s intentions to the taxpayers. Then, in a subsequent fiscal year, when the capital purchase is necessary, an appropriation for the purchase could be financed from the reserve without the need to raise taxes for this purpose.

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 Town 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 management, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents, such as Board minutes, and financial records and reports. 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 management, and Town Clerk/Tax Collector and Justice Court operations for further audit testing.

To accomplish our objectives, we performed the following procedures:

Financial Management

- Determined fund balance trends by analyzing the Town's annual report data for the fiscal years 2010 through 2012
- Determined if operating deficits were planned or unplanned by reviewing the Town's adopted budgets
- Determined cash balance trends by analyzing bank statements and annual reports
- Determined if interfund transfers and advances have been made to subsidize other funds' operations
- Interviewed key officials to determine if the Board has a plan to address the Town's financial condition and the development of a multiyear financial plan.

Town Clerk/Tax Collector

- Interviewed the Supervisor and the Clerk/Collector concerning tax collection procedures and Board oversight
- Reviewed all cash disbursements from the Collector's bank account for the 2011, 2012, and 2013 collection periods and compared deposits with collection reports utilizing compositions of deposits obtained from the bank

- Reviewed the cashbook, bank statements, duplicate deposit slips, monthly reports, daily collection reports, unpaid tax lists, and annual tax settlement reports.

Justice Court

- Interviewed the Town Justice and court clerk
- Reviewed monthly Justice Court reports, cash receipts records, deposit slips, bank records, and compositions of deposits.

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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