



Town of Dover

Financial Activities

Report of Examination

Period Covered:

January 1, 2011 — October 22, 2012

2013M-139



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
FINANCIAL ACTIVITIES	5
Real Property Tax Deposits and Remittances	5
Bank Reconciliations	6
Claims Audit	7
Professional Services	7
Lease Financing	8
Annual Audit	9
Recommendations	9
APPENDIX A Response From Local Officials	11
APPENDIX B Audit Methodology and Standards	13
APPENDIX C How to Obtain Additional Copies of the Report	14
APPENDIX D Local Regional Office Listing	15

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 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 Dover, entitled 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*

Introduction

Background

The Town of Dover (Town) is located in Dutchess County and has a population of approximately 8,700. The Town is governed by the Town Board (Board), which comprises four elected members and an elected Town Supervisor (Supervisor). The Board is responsible for overseeing the Town's operations, finances, and overall Town management. The Supervisor serves as the Town's chief executive officer and chief fiscal officer and is responsible for maintaining the Town's financial records. The Supervisor annually appoints a bookkeeper to maintain accounting records, payroll and leave accrual records. An elected Tax Collector collects real property taxes and remits collections to the Town and the County.

The Town provides various services to its residents, including street maintenance, parks and recreation programs, fire protection and ambulance services, and general government support. Total budgeted expenditures for the 2012 fiscal year were approximately \$4.4 million, primarily funded with revenues from sales and property taxes.

Objective

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

- Does the Board provide sufficient oversight of the Town's financial activities?

Scope and Methodology

We examined the Board's oversight of the Town's financial activities for the period January 1, 2011 to October 22, 2012.

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 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 planned to take, or have already taken, corrective action.

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 Activities

Governing boards are responsible for overseeing the fiscal operations of local governments, while managers follow the board-adopted policies to guide their decisions and supervise accounting and other fiscal activities. As stewards of the Town's resources, the Board should ensure that Town officials and employees follow applicable laws over key financial areas, including the management of real property taxes, audit of claims, and lease financing. The Board should also establish and enforce adequate controls to reduce the risk of error, fraud, or waste of Town moneys. Finally, the Board is required to provide for an annual audit of the books and records of all officials and employees who receive or disburse money.

The Board needs to improve its oversight of key financial activities and ensure that applicable laws and best practices are followed to help ensure that Town resources are adequately safeguarded. The Tax Collector did not deposit and remit tax payments within the timeframes required by law, and the Supervisor did not ensure that the bookkeeper maintained timely and accurate records and bank reconciliations. Further, because the Board did not audit the books and records of the applicable officials, these and other deficiencies were not detected. The Board also did not properly audit claims and failed to use competition when procuring professional services, increasing the risk of wasting taxpayer money.

Real Property Tax Deposits and Remittances

Town Law and Real Property Tax Law require the Tax Collector to deposit all moneys collected within 24 hours into the bank or trust company designated by the Board. All deposited tax money must be paid to the Supervisor at least once each week, or more frequently if required by Board resolution. The Tax Collector collects real property taxes from January through June 15. The County collects overdue taxes after June 15.

We reviewed the real property tax collection remittances to the Supervisor for the 2012 Town and County tax collection periods and found that the Tax Collector did not remit payments at least once a week, as required. Instead, the Tax Collector remitted funds twice, on February 21, 2012 (\$1.5 million) and on March 1, 2012 (\$1.4 million). Furthermore, the Tax Collector did not remit collections in their entirety to the Supervisor on February 21, but instead left \$171,922 in collections on deposit in the bank account until March 1.

As a result, tax collections were not available to the Supervisor when they should have been. In addition, the Tax Collector

deposited collections into a non-interest-bearing account, resulting in approximately \$2,800 of lost interest income on the amounts held on deposit.

The Tax Collector and the Board were not aware of the legal requirement for remitting tax collections to the Supervisor. The Board now requires checks to be remitted weekly, or more often when dollar amounts are significant.

Bank Reconciliations

The reconciliation of bank account balances to general ledger cash balances is an essential control activity for the timely identification and documentation of differences between the Town's book balances and bank balances. Bank reconciliations should be independently reviewed on a regular basis to ensure that they are prepared in a proper manner. Reconciliations also serve as an internal verification of cash receipt and disbursement transactions.

The Tax Collector maintained an account register on a spreadsheet with deposits, checks written, and other transactions, but did not reconcile her bank account during our audit scope period. The spreadsheet did not agree to the bank statements for February, March, and April 2012. For instance, the spreadsheet did not include the \$1.5 million check when written to the Supervisor on February 21, 2012, but included it in March 2012 when the check was cashed. The Tax Collector instead recorded activity on the spreadsheet after it appeared on the bank's website.

In addition, the Supervisor did not maintain current bank reconciliations during 2012, and told us this was because an experienced bookkeeper left Town employ in January 2012 and her replacement was unable to reconcile the bank statements to the general ledger. The new bookkeeper identified differences between the payroll bank statement and the general ledger through September 2012, but was unable to make and post adjustments to the general ledger. The Town hired an outside accountant to reconcile the statements, which were completed through April 2012 by October 2012, and through September 30, 2012 by March 7, 2013.

We reviewed the common¹ and payroll checking accounts for December 2011 through September 2012. The payroll checking account was not reconciled to the general ledger for the calendar year 2012. The common checking account was not reconciled to the general ledger for May through September 2012 at the start of our audit and for October through December 2012 when we completed

¹ The Town uses one bank account for all its funds. Moneys are commingled and separately reconciled to the specific fund balance.

our audit procedures. We identified a \$2,324 excess in the payroll account. In addition, the Town had not cleared outstanding items totaling \$3,372 from years prior to December 31, 2011. In December 2012, the Supervisor hired another bookkeeper and informed us that the Town planned to bring all the bank account reconciliations up to date.

Without routine bank reconciliations, there is less assurance that Town records or tax records are correct or that all moneys are accounted for. This increases the risk that errors, omissions, or fraud could occur and remain uncorrected or undetected.

Claims Audit

Town Law requires the Board to audit and approve all claims before the Supervisor can disburse payments. The audit of claims must be a deliberate and thorough process to determine whether proposed payments are proper, and whether the Town's purchasing procedures and pertinent laws have been followed. Each claim must be written, itemized, and accurate; include evidence of approval by the Town official whose action gave rise to the claim; and include receiving report, and quotes, bids or State or County contract information.

The Board did not have written procedures or guidelines to ensure proper review of claims and did not perform a deliberate audit of claims or require that claims include relevant documents. We judgmentally selected 28 purchases² totaling \$2.1 million made during the audit period from selected vendors. Twenty purchases totaling \$625,323 lacked supporting documentation, including quotes required by Town policy and requests for proposals (RFPs) for professional services. In addition, the Town made two purchases totaling \$77,550 from a contractor with an expired County contract. The Board's failure to adequately audit claims increases the risk that purchases may not be for Town-related business. Board members were not aware that they must perform a deliberate and thorough review of claims.

Professional Services

Under General Municipal Law (GML), competitive bidding is not required for the procurement of professional services that involve specialized skill, training, and expertise; use of professional judgment or discretion; and/or a high degree of creativity. However, GML requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to statutory competitive bidding requirements, such as professional services and items that fall under the bidding thresholds. A comprehensive procurement policy should require officials to seek competition by other means whenever they procure professional services, and to maintain documentation to support procurement decisions. A request

² We judgmentally selected four to five purchases in each procurement range, choosing purchases based on amounts near the top and bottom of each threshold.

for proposal (RFP) process is one method Town officials can use when acquiring professional services to help ensure that the Town receives the desired service for the best price.

The Town's procurement policy should be strengthened. It requires competition for professional services only at the Board's request, and does not specify the method to be used. Further, the policy does not establish how often the Town should seek competition for professional services. For example, by issuing RFPs for outside accounting services every three or four years instead of routinely using the same vendor, officials could expand the field of competitors and potentially lower costs. We reviewed five purchases³ of professional services, totaling \$344,879, made during the audit period. Four purchases totaling \$321,878 for engineering, legal, environmental consulting, and accounting services were made without soliciting competition.

Without the benefit of competition in the Town's procurement of professional services, taxpayers have limited assurance that the Town obtained these services as economically as possible.

Lease Financing

GML authorizes towns to enter into installment purchase contracts, including "any lease purchase agreement . . . which has as its purpose the financing of machinery, equipment, or apparatus." Because GML limits the term of an installment purchase contract to the applicable "period of probable usefulness" (PPU) prescribed by Local Finance Law, a lease-purchase agreement may only be used to finance machinery, equipment, and apparatus for which such a PPU has been established. In addition, the Town must solicit and evaluate the financing alternatives and the Board must determine and explain why a lease-purchase agreement is in the Town's best interest.

Our testing included truck lease payments of \$54,814 in the audit period.⁴ The total lease cost of the two purchased trucks was \$44,487 in 2009 and \$54,695 in 2011. The Town used one bank for both lease-financing transactions. Although the Town competitively bid the purchases, the financing portion was not part of the bid specifications and was not a separate bid; rather, the Town employed the services of a broker to obtain the lease-purchase package. Town officials were unaware that leases carried the same procurement provisions as other purchases. While they said they performed a general comparison of leasing with bonding for purchases, we found no indication of any evaluation of financing alternatives. Town officials stated that leases

³ Our sample of professional services was five of 16 providers based on higher payments made. We selected one provider of each type of service: engineer, attorney, computer services provider, an outside accountant, and a project consultant.

⁴ Included in the purchases selected for our claims audit testing

were better because a lease is not renegotiated annually and the rate is fixed.

Analyzing purchase financing options as part of the purchase process would help ensure that Town officials are making economically prudent decisions. For example, vehicle leasing arrangements are available under State contract, which may save the Town costs such as brokerage fees. Without a thorough analysis of financing options, Town taxpayers cannot be assured that leases were secured at the most competitive rates and that the Town has paid the lowest available amount for this equipment.

Annual Audit

Town Law requires the Board to annually audit, or provide for the audit of, the books, records, and documents of municipal officers and employees who received or disbursed money on behalf of the Town in the preceding fiscal year. The purpose of this annual audit is to provide assurance that public moneys are handled properly (i.e., deposited in a timely manner, accurately recorded, and accounted for), to identify conditions that need improvement, and to provide oversight of the Town's financial operations. This periodic audit should be thorough and, when done properly, can help Board members understand the financial details of departmental operations, which is essential to effective oversight. Board oversight becomes particularly important in smaller operations which may not have an adequate system of controls because employees are required to perform duties that should optimally be segregated.

The Board did not examine the financial records or reports of all officers and employees who received or disbursed moneys on behalf of the Town during the year. These included the records of the Supervisor, Town Justices, Code Enforcement Officer, Tax Collector, and Town Clerk. Board members told us they were unaware of the annual audit requirement.

The Board's failure to perform an annual audit and to examine accounting records and reports hinders its ability to monitor and maintain accountability for the Town's financial operations and protect Town assets from loss, waste, or abuse. In addition, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected in a timely manner.

Recommendations

1. The Tax Collector should remit real property tax payments to the Supervisor weekly until the Town warrants have been satisfied.
2. The Supervisor and Tax Collector should perform bank and cash reconciliations monthly to compare bank balances to balances in their respective ledger or general ledger cash accounts.

3. Town officials should ensure that accurate monthly bank reconciliations are performed and should promptly identify and resolve any disclosed differences.
4. The Board should conduct a thorough and deliberate audit of claims for payment against the Town before they are paid, ensuring that each claim has sufficient supporting documentation and represents a valid Town expenditure.
5. The Board should consider amending its procurement policy to require competition when procuring professional services.
6. The Board should solicit and evaluate financing options for machinery, equipment, or apparatus purchases to identify the option that is in the Town's best interest.
7. The Board should conduct an annual audit of the records and reports of all Town officers and employees who received or disbursed money during the preceding fiscal year.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Town of Dover, New York Ryan Courtien, Supervisor

126 East Duncan Hill Rd • Dover Plains, NY 12522

Phone: (845)832-6111

Fax: (845)832-3188

E-Mail: supervisor@townofdoverny.us

Website: <http://townofdoverny.us>

NYS Comptroller
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear NYS Comptroller,

Thank you for the opportunity to meet with your staff last year and this year for our once-a-decade routine audit. Your staff was very supportive in helping us manage resources efficiently and effectively. Adjustments were made to Town Policy throughout the Audit process to reflect recommendations from Comptroller staff.

A CAP, Corrective Action Plan, will be forwarded to your office within the 90 day timeframe. Below are the specific responses to recommendations:

1. This recommendation has already been included in Town Policy by Town Board resolution and implemented by the Tax Collector.
2. This recommendation has already been instituted by both the Supervisor's Office and the Tax Collector.
3. The Bookkeeper is performing monthly bank reconciliations as recommended.
4. This recommendation has already been included in Town Policy by Town Board resolution and is being implemented.
5. This recommendation has already been included in Town Policy by Town Board resolution and will be implemented by the Town Board at the next Town Board Organizational Meeting.
6. The solicitation and evaluation of financing options has been taking place; documentation of options not taken will now be included with the preferred option.
7. These annual audits will be conducted in the first quarter of 2014.

Thank you and we look forward to working with you again in 2022 / 2023.

Sincerely,

Ryan Courtien
Dover Town Supervisor

APPENDIX B

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. We performed an initial on-site risk assessment of the Town's internal controls and financial operations in July 2012 and identified significant deficiencies. Due to the identified deficiencies in the Board's and Supervisor's oversight of financial management and recordkeeping, we returned to the Town in October 2012 to perform an audit.

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 the areas most at risk. We selected Board oversight of financial activities. To achieve our audit objectives and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed appropriate Town officials and reviewed pertinent documents, such as Town policies, Board minutes, and financial records and reports.
- We reviewed the Tax Collector's bank account for payments to the Town and County and for bank reconciliations.
- We reviewed the Town's bank reconciliations for its common⁵ checking account and payroll checking account.
- We judgmentally selected four to five purchases in each procurement range based on amounts near the top and bottom of each threshold. Our professional services sample was based on higher payments made. We selected one provider as follows: engineer, attorney, computer services provider, an outside accountant, and a project consultant. We reviewed the selected claims for proper supporting documentation, appropriateness, and compliance with the Town's procurement policy. We reviewed the Town's procurement of professional services and lease financing.

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.

⁵ The Town uses one bank account for all funds. Moneys are commingled and separately reconciled to the specific fund balance.

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Andrew A. SanFilippo, Executive Deputy Comptroller
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