



Town of Hanover

Town Supervisor and Town Clerk Operations

Report of Examination

Period Covered:

January 1, 2011 — January 18, 2013

2013M-40



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 Hanover, entitled Town Supervisor and Town Clerk Operations. 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 Hanover (Town) is located in Chautauqua County (County) and has a population of approximately 7,000. The Town Board (Board), comprising five elected members, is the legislative body responsible for the general management and control of the Town's financial and operational affairs. The Town provides various services to its residents, including road maintenance, snow removal, fire protection, general government support, water supply, and wastewater services. The Town's 2012 budgeted appropriations for all funds totaled approximately \$4.3 million and were funded primarily by real property taxes, sales tax, user charges, and State aid.

Scope and Objective

The objective of our audit was to review the processes and procedures for the Town Supervisor (Supervisor) and Town Clerk's (Clerk) financial operations for the period January 1, 2011, to January 18, 2013. When necessary, we obtained information from prior years to complete our audit objective. Our audit addressed the following related questions:

- Did the Supervisor have adequate control of his financial records and adequately perform his duties as chief fiscal officer?
- Did the Clerk record, deposit, disburse and report all moneys collected in a timely and accurate manner?

Audit Results

An account clerk and the Deputy Town Clerk (Deputy) performed virtually all of the Supervisor's financial duties without his proper oversight. The Deputy also routinely performs the fiscal duties of the Clerk's office. The Clerk and Supervisor have functions that serve as checks against one another that do not exist unless they are performed by separate individuals. By allowing the Deputy to perform the duties of both offices, these controls have been weakened and there is an increased risk that funds could be misappropriated and improper transactions concealed.

Additionally, the Supervisor did not submit adequate financial reports to the Board and the Board did not perform an annual audit of the Supervisor's records and reports, as required by law. As a result, the Board was not aware that the Supervisor's account clerk used inappropriate accounting methods that concealed the true financial condition of certain Town operating funds. We found that the account clerk improperly transferred approximately \$400,000 from the sewer fund to the water fund without recording the activity in the accounting records. As a result, the true financial condition of the water

and sewer districts accounted for within these two funds has not been accurately accounted for and reported. Town officials stated that these moneys were expected to be paid back over the next six or seven years. However, given the financial condition of the water fund, in particular water district #1, it is unclear whether this will indeed occur. General Municipal Law requires such interfund advances to be repaid no later than the close of the fiscal year in which the loan was made. Moreover, if the total amount of the advance is not repaid, the Town would not be complying with statutory restrictions on the use of sewer rents, since a transfer for water district capital improvements is not among the limited purposes authorized.

We found that the Clerk deposited all moneys collected and remitted these moneys to the Supervisor, County, and other agencies as appropriate. However, the Clerk did not record tax and water payments when they were received and did not indicate the form of payment received in the water and sewer records. Additionally, the Clerk did not disburse and report Clerk fees, real property taxes and other moneys received in a timely manner. Because of these weaknesses, the risk is increased that the Clerk's collections could be lost or misappropriated.

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 disagreed with our findings but indicated they would be taking corrective action with respect to certain recommendations. Appendix B includes our comments on issues raised in the Town's response.

Introduction

Background

The Town of Hanover (Town) is located in Chautauqua County (County) and has a population of approximately 7,000. The Town Board (Board), comprising five elected members, is the legislative body responsible for the general management and control of the Town's financial and operational affairs. The Town provides various services to its residents, including road maintenance, snow removal, fire protection, general government support, water supply and wastewater services. The Town's 2012 budgeted appropriations for all funds totaled approximately \$4.3 million and were funded primarily by real property taxes, sales tax, user charges, and State aid.

The Town Supervisor (Supervisor) is the chief executive officer and chief fiscal officer of the Town. The Supervisor, who is a member of the Board, has the overall responsibility for the receipt of Town moneys, maintaining the accounting records, and preparing financial reports. The Supervisor's account clerk's duties include maintaining the accounting records, preparing monthly financial reports for the Board, preparing and filing annual financial reports, and acting as the Town's Budget Officer.

An elected Town Clerk (Clerk) is responsible for the collection of moneys for conservation, dog, and marriage licenses, birth and death certificates; and certified copies. In addition, the Clerk is responsible for collecting water and sewer user charges. The Clerk must properly record all moneys received, deposit the moneys in accordance with statutory requirements, and remit these moneys to the appropriate entities, including the Supervisor. The Clerk collected \$64,783 in fees during our audit period.

The Clerk also is the Tax Collector, responsible for collecting, recording, depositing, and remitting property tax receipts to the Supervisor and County in a timely manner, imposing penalties on late payments, and accounting for interest earned on the deposit of these moneys. The Tax Collector is authorized and directed by the tax warrant to collect Town and County taxes from January 1 to April 1, totaling approximately \$5.3 million annually. A full-time Deputy Town Clerk and a part-time clerk assist the Clerk with her office's operations.

Objective

The objective of our audit was to evaluate the operations and financial records of the Supervisor and Clerk. Our audit addressed the following related questions:

- Did the Supervisor have adequate control of his financial records and adequately perform his duties as chief fiscal officer?
- Did the Clerk record, deposit, disburse and report all moneys collected in a timely and accurate manner?

**Scope and
Methodology**

We examined the records and reports for the Supervisor’s and Clerk’s Offices for the period January 1, 2011 through January 18, 2013. When necessary, we obtained information from prior years to complete our audit objective.

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 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 disagreed with our findings but indicated they would be taking corrective action with respect to certain recommendations. Appendix B includes our comments on issues raised in the Town’s response.

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.

Supervisor's Fiscal Responsibilities

The Town's financial data must be complete, accurate and up-to-date to be relevant and useful for managing Town operations. The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions, including maintaining accounting records by fund and providing monthly financial reports to the Board. If the Supervisor assigns his financial duties to another individual, the Supervisor must provide sufficient oversight to ensure suitable records are maintained and financial information is recorded accurately and in a timely manner. The lack of adequate and timely accounting records makes it difficult for the Supervisor and Board to evaluate the Town's financial activities, and inaccurate records can obscure the Town's true financial condition.

An account clerk and the Deputy Town Clerk (Deputy) perform virtually all of the Supervisor's financial duties without his proper oversight. The Deputy also routinely performs the fiscal duties of the Clerk's office. The Clerk and Supervisor have functions that serve as checks against one another that do not exist unless they are performed by separate individuals. By allowing the Deputy to perform the duties of both offices, these controls have been weakened and there is an increased risk that funds could be misappropriated and improper transactions concealed.

Additionally, the Supervisor did not submit adequate financial reports to the Board and the Board did not perform an annual audit of the Supervisor's records and reports, as required by law. As a result, the Board was not aware that the Supervisor's account clerk used inappropriate accounting methods that concealed the true financial condition of certain Town operating funds. We found that the account clerk improperly transferred approximately \$400,000 from the sewer fund to the water fund without recording the activity in the accounting records. As a result, the true financial condition of the water and sewer districts accounted for within these funds has not been accurately accounted for and reported. Town officials stated that these moneys were expected to be paid back over the next six or seven years. However, given the financial condition of the water fund, in particular water district #1, it is unclear whether this will indeed occur. General Municipal Law (GML) requires such interfund advances to be repaid no later than the close of the fiscal year in which the loan was made. Moreover, if the total amount of the advance is not repaid, the Town would not be complying with statutory restrictions on the use of sewer rents, since a transfer for water district capital improvements is not among the limited purposes authorized.

Supervisor's Duties

The Supervisor, as chief fiscal officer, is responsible for maintaining accurate and up-to-date accounting records and preparing accurate financial reports to provide the Board and public with information needed to monitor the Town's financial affairs.

The Supervisor does not adequately monitor those individuals handling his financial duties. The account clerk maintains the Supervisor's accounting records, prepares bank reconciliations, and is responsible for all financial reporting with little or no oversight by the Supervisor. Additionally, the Supervisor indicated that he periodically reviews bank statements but does not do so every month. He also told us that he does not perform a bank reconciliation comparing bank and book balances. Because the Supervisor does not perform these important oversight responsibilities, he would not be able to detect and correct any errors that had occurred.

We reviewed the Supervisor's accounting records and financial reports for the period January 1, 2011, through December 31, 2012, to determine if they were accurate and complete; we found no material discrepancies. However, the Supervisor's accounting records were not always kept up-to-date. The account clerk stated that he only records transactions once each month. As of January 18, 2013, transactions had only been posted through November 30, 2012. In addition, because the account clerk was on vacation from December 10, 2012, through mid-February 2013, he was unable to fulfill his bookkeeping duties during this period. This period includes the time a town's accounting records would typically be closed and reports prepared for its fiscal year ending December 31. Because the Supervisor did not ensure that bookkeeping duties were completed during the account clerk's absence, the Board did not have up-to-date financial information on which to base its decisions.

We also found significant control weaknesses because the Supervisor has the Deputy performing most of his financial duties. The Deputy prepares and mails checks and records disbursements. She also collects, records, and deposits receipts on behalf of both the Supervisor and Clerk. The Clerk and Supervisor have functions that serve as checks against one another that do not exist unless they are performed by separate individuals. By allowing the Deputy to perform the duties of both offices, these controls have been weakened and there is an increased risk that funds could be misappropriated and improper transactions concealed. Also, the Deputy does not issue duplicate press-numbered receipts and does not maintain a cash book or other chronological record of moneys received by the Supervisor to document the form of the receipt.¹ In addition, although the Supervisor

¹ The Deputy lists checks and cash on the deposit slips she prepares. Monthly, the account clerk uses the deposit slips to post receipts to the accounting records.

assigned these responsibilities to the Deputy, the Supervisor had little knowledge of how the Deputy completed them.

The Supervisor also provided the Deputy with his signature stamp, thereby relinquishing his check signing responsibilities. The Deputy prepares the abstract of audited claims, enters the payments into the accounting system, prints checks, and then signs them with the Supervisor's signature stamp. The Clerk does not prepare and present certified abstracts of audited claims to the Supervisor. As a result, the Deputy can initiate, pay, and record payments without oversight. The Deputy could add claims that were not approved by the Board and use the Supervisor's signature stamp to make unauthorized payments. Although the Supervisor stated that he reviews claims, he does not review printed checks or canceled check images to ensure that payments were made for valid Town purposes.

The Deputy also performs several key payroll-related duties with limited oversight. She provides the payroll processing company² with all the necessary information and transfers funds between bank accounts. The payroll processing company delivers the checks to the Town to be signed by the Supervisor and distributed by the Clerk and Deputy. The account clerk records payroll activity using summaries provided by the Deputy. Although the Supervisor stated that he reviews each payroll check he signs, he does not review the payroll bank account or ensure that disbursements for net pay and withholding amounts agree with the approved payroll records.

We reviewed certain cash receipts totaling \$5.3 million,³ payroll disbursements totaling \$52,000,⁴ and non-payroll disbursements totaling \$411,000.⁵ Overall, we found no material discrepancies. We found that all receipts were deposited and reflected in the Town's accounting records⁶ and payments were for legitimate purposes. We also reviewed all trust and agency bank statements and canceled check images from January 2011 to December 2012 and found no evidence of unusual activity.⁷

² The Town contracts with a third-party provider to process payroll.

³ We reviewed \$1.8 million in revenues from the State and County by judgmentally selecting significant payments, all \$17,000 in Clerk fees and licenses, \$3.2 million for tax collections by selecting significant payments, all \$25,900 in building and zoning fees, and all \$237,000 in court fees and fines.

⁴ We reviewed all payroll disbursements to key Town officials for the 2011 and 2012 fiscal years.

⁵ We reviewed claims and related documentation for 122 payments made between January 1, 2011, and December 31, 2012, totaling \$411,000. We judgmentally selected these claims based on larger dollar amounts.

⁶ As discussed previously, amounts collected and deposited after November 30, 2012, were not yet recorded. We identified over \$50,000 in payments that were received and deposited during December 2012 but were not recorded.

⁷ Unusual activity could include checks payable to Town employees, in-bank withdrawals, phone transfers other than to Town accounts or appropriate State or Federal Agencies, or debit transactions not for payroll withholdings.

The Supervisor's failure to perform his financial duties and to oversee the individuals performing these duties has resulted in internal control weaknesses over cash receipts and disbursements. Although our tests did not identify exceptions, concentrating key duties (i.e., collecting, receipting, recordkeeping, and depositing) with one individual significantly increases the risk that errors and irregularities might occur and go undetected and uncorrected.

Financial Activity and Board Oversight

It is important to maintain accurate and complete financial reports so that the Board can determine the financial condition of a fund at any point in time. Without accurate financial information, the Board cannot make informed financial decisions. Further, the Board must annually audit the Supervisor's records and reports to ensure that he is adequately performing his fiscal duties.

We found that the account clerk did not account for certain interfund activity and failed to properly account for unexpended bond proceeds in accordance with Local Finance Law requirements.

Water Fund – The water fund⁸ incurred a significant operating loss in 2011 totaling more than \$509,000 and an operating loss of approximately \$67,000 in 2012. The operating losses were the result of the Board's decision to finance a major waterline improvement project for water district #1 as a current year operating expenditure instead of issuing debt or financing the cost of the project over multiple fiscal years. The account clerk improperly transferred approximately \$154,000 of unexpended bond proceeds from the capital projects fund to the water fund to help offset the loss. Additionally, the account clerk also improperly transferred approximately \$400,000 from the sewer fund⁹ to the water fund over the two-year period for water district #1 project expenditures.

Although the account clerk stated that he expects the money to be repaid to the sewer fund over the next six to seven years, he did not record this activity as a transfer or an interfund loan in either fund. As a result, the Town's financial records do not properly reflect the true financial condition of the water and sewer districts accounted for within these funds. Furthermore, the operating losses have resulted in a significant decline in fund balance available for operations.

Given that the water fund reported an unrestricted fund balance¹⁰ deficit of almost \$350,000 at December 31, 2012 and no available cash, Town officials could not demonstrate if or when water district

⁸ There are two districts and three extensions. The operating loss, projects and debt are related to water district #1.

⁹ The sewer fund accounts for the activity within the Town's one sewer district.

¹⁰ \$440,000 of fund balance is reported as restricted for equipment purchases.

#1 would be in a position to repay all of the moneys due the sewer fund. The water fund's reliance on the sewer fund for cash flow and operating shortfalls could contribute to the deterioration of the sewer fund's financial condition. Furthermore, while GML authorizes the temporary advance of moneys between funds, such loans are required to be repaid no later than the close of the fiscal year in which the advance was made. Moreover, if all of these moneys are not repaid, this activity would violate other provisions of GML that limit the use of sewer rents to certain purposes, which do not include financing water district improvements. We strongly encourage the Board to contact legal counsel to ensure these actions do not violate pertinent statutes.

We also found that the Town issued serial bonds for a water capital project that was completed in 2007 for water district #1. At December 31, 2010, unexpended bond proceeds related to this project totaled more than \$196,000 in the capital projects fund. The Local Finance Law requires that unexpended debt proceeds and interest earned be used for related debt service payments.¹¹ However, in the four years since the capital project was completed, these moneys were not used, while the water fund made debt service payments totaling more than \$714,000. Had Town officials used these moneys as required, they could have reduced the real property taxes levied for debt service in water district #1.

Monthly Financial Reports – Town Law requires that the Supervisor submit a monthly report of the Town's financial activity to the Board for review. While the Supervisor submits a monthly financial report to the Board, it is not adequate for the Board to fulfill its financial oversight responsibilities. The reports are typically over 60 pages long and include a budget to actual comparison of all revenues and expenditures recorded year-to-date and for the current month. However, the report does not include cash receipts and disbursements for the month, or current cash balances. Board members indicated that the reports are too cumbersome and difficult to understand. Furthermore, they do not review or use the reports on a regular basis and one Board member has requested that the report no longer be printed for him.

Inadequate reporting, poor budgeting practices, improperly recorded interfund activity, and failure to use unexpended bond proceeds as required have obscured the Town's true financial condition, compromised the transparency of Town operations, and sequestered significant taxpayer moneys.

¹¹ Resources restricted for the payment of debt service should be reported in a debt service fund.

Annual Audit – While Town Law requires the Board to annually audit, or retain an independent auditor to audit, the books and records of the Supervisor, Clerk and Justice, the Board does not audit the books and records of the Supervisor. Board members told us that although they reviewed the reports and records of the Clerk and Justice each year, they could not recall auditing the Supervisor’s books or records. The Board’s failure to perform required annual audits diminishes its ability to effectively monitor the Town’s financial operations, and could result in errors or irregularities occurring and remaining undetected and uncorrected.

Recommendations

1. The Supervisor should ensure that any individuals performing his financial duties do not result in an incompatibility of office, such as the Deputy Town Clerk.
2. The Supervisor should properly monitor the individuals performing his financial duties and ensure that his accounting records are maintained timely and accurately.
3. The Supervisor should ensure that a cash receipts record is maintained and compared to bank deposits.
4. The Supervisor should maintain control of his signature stamp.
5. The Supervisor should ensure that disbursements for net pay and withholding amounts agree with the approved payroll records.
6. The Board should adopt budgets that contain realistic revenue and expenditure estimates, and monitor financial activity to ensure that operations closely mirror the budget.
7. The Board should consult legal counsel to ensure the actions taken with respect to the transfer/advance of moneys from the sewer fund primarily to finance capital improvements for water district #1 do not violate relevant statutory provisions.
8. Town officials should use unexpended bond proceeds to pay related debt service.
9. The Board should require the Supervisor to provide monthly financial reports that include necessary information in a more useful format including summarized budget-to-actual data for all funds and cash balances at month end.
10. The Board should annually audit, or retain an independent auditor to audit, the Supervisor’s books and records.

Town Clerk

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 bank accounts, and disbursing those moneys to the appropriate parties.

We found that the Clerk deposited all moneys collected and remitted these moneys to the Supervisor, County, and other agencies as appropriate. However, the Clerk did not record tax and water payments when they were received and did not indicate the form of payment received in the water and sewer records. Additionally, the Clerk did not disburse and report Clerk fees, real property taxes and other moneys received in a timely manner. Because of these weaknesses, the risk is increased that the Clerk's collections could be lost or misappropriated.

Receipts and Deposits

The Clerk is responsible for ensuring that all money collected by her office is deposited and recorded in a timely manner and intact.¹² The Clerk should maintain a detailed listing of the payments received to allow for timely bank deposits and to help expedite an accurate distribution of moneys collected to appropriate parties.

Town Clerk Fees – Town Law requires that the Clerk deposit moneys received no later than the third business day after accumulating \$250. We examined four months¹³ of collection activity for license fees totaling approximately \$12,000 and found that deposits were generally made intact and in a timely manner.

Water and Sewer Rents – We reviewed sewer rents collected during the months of May 2012 and June 2012¹⁴ totaling more than \$145,000 and water rents collected during August 2012 totaling approximately \$48,000 and found that they were not being properly recorded. According to the Clerk, she and her staff do not record these collections when they receive them; instead, they record them when they prepare the deposit or when they have sufficient time. Because the Clerk did not regularly identify which individual receipts and customer account payments made up each deposit, she could not provide us

¹² Deposited in the same form as collected (i.e., cash, checks, or money orders)

¹³ We judgmentally selected months with more collection activity.

¹⁴ We selected May 2012 and August 2012 because that was when the semiannual collection of rents began. When we identified deficiencies tracing collections to deposits, we expanded our review to include June 2012.

with appropriate documentation to determine when specific receipts were deposited.

Additionally, we found that the Clerk's office failed to properly record and deposit certain sewer rents. The Clerk deposited \$34,162 on June 11, 2012, but her records reflected collections of \$36,099 (\$1,937 more than deposited). Three receipts totaling \$834 were recorded as being paid on June 11, 2012, but were actually deposited on May 25, 2012, June 6, 2012, and June 7, 2012. Another receipt totaling \$1,103 was recorded as paid on June 11, 2012, but was not deposited until June 12, 2012. However, the Clerk was subsequently able to demonstrate that these recorded collections equaled deposits.

The Clerk's failure to ensure that fees and rents are recorded and deposited accurately and timely may result in errors and irregularities occurring and not being detected and corrected in a timely manner.

Remittances

Generally, all fees received by the Clerk are the property of the Town, County, or the State. The Clerk should remit these moneys promptly to the appropriate parties in accordance with statute.

Tax Collections – The Clerk collects Town and County real property taxes from January 1 to April 1 each year and is responsible for remitting taxes to the Town for its share of the tax levy, penalties and interest, and to the County for the balance collected. At the end of the collection period, the Clerk prepares a reconciliation of all collections, adjustments and unpaid taxes. Unpaid taxes are returned to the County Treasurer for collection and enforcement. Town Law requires that the Tax Collector remit collections to the Supervisor at least once each week until the Town's portion of the tax levy is satisfied, and to remit all residual collections to the County Treasurer by the 15th day of each month following their receipt. In 2011 and 2012, the Town and County tax warrants were \$5.2 million and \$5.4 million, respectively.

We reviewed bank account activity in 2011 and 2012 and found that, contrary to the requirement for remittances to be made at least once each week, only two remittances were made to the Supervisor for 2011 (\$298,000 on January 31, 2011 and \$1.3 million on March 18, 2011). Only one transmittal was made to the Supervisor for 2012, in the amount of \$1.6 million, on February 9, 2012.

Clerk Fees – Town Law requires the Clerk to submit monthly reports to the Supervisor for all moneys received and remit such moneys to him on or before the 15th of the month following receipt. The Clerk also must report and remit collections to other entities.

We found that, during 2011, the Clerk did not report and remit fees for 10 of the 12 months in a timely manner. Five of the 10 payments were remitted over 20 days late. For example, the Clerk did not report and remit the September 2011 Clerk fees totaling \$1,545 until December 12, 2011, three months late. During 2012, the Clerk did not report and remit fees for eight out of 11 months on time. Six of the 11 payments were more than 20 days late.

Delays in remitting real property tax and other Town moneys to the Supervisor result in moneys not being available to fund Town operations. When moneys collected are not remitted timely, the risk that they could be used for inappropriate purposes increases.

Recommendations

11. The Clerk should deposit all moneys timely and intact.
12. The Clerk should ensure that all moneys collected are properly recorded and that deposit amounts correspond to receipts received and recorded.
13. The Clerk should document which individual receipts make up each deposit and record the form of payment (cash or check).
14. The Clerk should remit all moneys to the Supervisor in compliance with statutory requirements.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF HANOVER

68 Hanover Street

Silver Creek, New York 14136

716-934-2273/fax 716-934-7991/711(TDD NYS relay number)

Todd H. Johnson, Supervisor

Ken Cross, Deputy Supervisor

Fritz Seegert, Councilman

Wayne Ashley, Councilman

Kevin O'Connell, Councilman

April 25, 2013

Office of State Comptroller
Division of Local Government
Buffalo Regional Office
295 Main St.-Suite 1032
Buffalo, NY 14203-2510

Dear Sir:

Below is the Town of Hanover's written audit response relative to your draft audit report period covering January 1, 2011 – January 18, 2013.

SUPERVISOR'S RESPONSE:

Page 8 – Paragraph #3-
Page 11 – Paragraph #2-

In regards to the financial condition of the water fund and it being unclear whether it will be able to repay the loan or Town officials not being able to demonstrate that it can, please note: with the completion of the year December 31, 2012, the report shows that after analysis, the revenue exceeds expenses by about \$55,000. This was done by the Town Board increasing the tax levy and carefully controlling expenses. This will allow the fund to re-pay the loan over a six to seven year period, which was originally planned and publicly stated.

See
Note 1
Page 20

See
Note 2
Page 20

Page 9 – Paragraph #2-

In regards to the accounting records not being kept up-to-date, please note that all receipts are maintained: daily receipts are recorded daily and deposited daily. Once deposited, receipts can no longer be altered. Receipt records are pre-numbered and once a month posted to general ledger to generate the monthly report. To post more often than that would just result in more lengthy reports no one has time to review. Vouchers are posted as they become available. Upon approval of the Town Board, they are paid once a month and listed on an abstract. Doing this more than once a month, is not needed, due to the size of the Town and its activity.

See
Note 3
Page 20

E-mail: hanboard@roadrunner.com
www.townofhanover.org

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Page 9 – Paragraph #2-

In regards to the account clerk being unable to fulfill his bookkeeping duties, let me start by saying that his duties are to prepare and review, with the Board, monthly reports. With the first eleven months of the year, the report is filed within the first ten days of each month end. The December report is usually completed by mid-February of each year when he returns from his “vacation”. This is a year-end report! I am sure if you check other Town’s filings, you will see that most are not completed prior to mid-February. Maybe that is why New York State allows three months for filing the AUD. To say that he is unable to perform his duties because of this, would be petty and something that is done by many others.

See
Note 4
Page 20

Page 10 – Paragraph #1-

The payroll account is reviewed monthly and is matched to the payroll period’s ledger that is produced by a paid payroll company. The payroll register is signed by the Supervisor after the payroll register is reviewed by him.

TOWN CLERK’S REPOSE:

Page 13 – Water and Sewer Rents –

At the exit meeting, the Town Clerk showed that the date the payments were received was the same date they were deposited. While inputting the payment into the computer, the incorrect date was entered. The date inputted was a date during the penalty free period. At the end of the penalty free collection period, a final summary is printed. The total amount inputted balanced the total amount deposited for the collection period. The auditors noted that receipts were recorded on one date but deposited on another date. It was proven that the receipts were collected and deposited for the same date. The error was made at the time of inputting the receipt into the sewer program. Because of human error, the State Comptroller’s Office is portraying that an impropriety was made.

I am open for suggestions as how to record every payment made at the time payment is received. My office collects \$4.8+ million dollars in less than 2 ½ months for tax collection and then during sewer/water collections, the Town Clerk’s office is busy doing day to day operations. Unfortunately, we do not have the staff to input each transaction immediately upon receiving payment.

See
Note 5
Page 20

The water and sewer computer programs do not provide a report for daily transactions. But, again, our deposit will show what payments were collected and also show if paid by cash or check.

Page 15 – Recommendations: #11 – “The Clerk should deposit all moneys timely and intact”-

On Page 13 Paragraph 4: the auditor’s stated: “. . . deposits were generally made intact and in a timely manner. “

Response: The Town Clerk’s office deposits money collected for dog, marriage, etc. **every** Friday or if the total reaches \$250, it is deposited the next business day. During the penalty free collection period for sewer, water and/or taxes, deposits are made **daily**. The total of the deposit will equal the total of the receipts collected for that day.

Page 15 – Recommendations: #12 – The clerk(s) balance their cash drawer(s) everyday. The Town Clerk’s computer program (dogs, marriage, etc.) can print out of a daily summary of the days’ transactions which will reflect the total amount collected for that day. The computer can print out a detailed transaction report but if the cash drawers balance to the day’s transactions, we do not feel it is necessary to print out a detailed report. A detailed report is printed at the end of the month for **every** transaction made for that month.

SEWER/WATER/TAX TRANSACTIONS: The clerk(s) run each water bill, etc. collected by them for that day. Receipts are marked if they are paid by cash. Penalty free collection period, deposits are made the very next business day and taken to the bank. We know we balance and the money has been deposited in the banks. Unfortunately, time does not allow us to immediately post such receipts to their respective accounts. The money is in the bank and it balances. A journal showing date of deposit, total amount of deposit and deposit number is kept by the Town Clerk of all deposits made.

Page 15 – Recommendations: #13. Every receipt (water bill, tax bill, dog license, etc.) will reflect the date of the transaction. All receipts dated for that day will equal the total deposit for that respective day. If you add up every receipt for that day – it will equal the deposit. Any receipt paid by cash is marked that it was paid by cash. Any receipt paid by check – a list of their name and dollar amount is made.

Very truly yours, ↗

Todd H. Johnson
Supervisor

THJ/hd

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

According to the financial reports provided to us by Town officials, expenditures exceeded revenues by approximately \$67,000 in the 2012 fiscal year. As such, it is unclear what report or operating surplus Town officials are referring to in their response.

Note 2

At the completion of the 2012 fiscal year, the water fund was not in the financial position to repay the funds advanced. In addition, we found no evidence that the Board has properly informed taxpayers by discussing the issues in a public forum and taking formal action to adopt a plan to address the outstanding loan amount, while also providing sufficient resources for water fund operations. Moreover, the account clerk's failure to properly record the interfund transactions further demonstrates that this activity has not been addressed in a transparent manner.

Note 3

As of January 18, 2013, the Supervisor's accounting records were not accurate and complete because cash receipt and disbursement transactions had only been posted through November 30, 2012. Town officials have a responsibility to ensure that all cash receipts are collected, recorded, and deposited in a timely manner and intact. The longer receipts go without being entered into the accounting system, the greater the risk that errors and irregularities could occur and not be detected and corrected.

Note 4

The Supervisor is ultimately responsible for the financial duties of his Office, which include providing financial reports to the Board in a timely manner. Accurate and timely financial reports provide the Board and taxpayers with information necessary to monitor Town finances.

Note 5

Although the Clerk could account for all sewer rents collected and deposited, certain discrepancies remained between her cash receipts records and deposit records. During field work, we had numerous discussions with the Clerk and her deputies regarding recordkeeping responsibilities and recommended practices.

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. During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents, such as Town policies and procedures, 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 on the reported objective and scope by selecting for audit those areas most at risk. We selected the financial activities of the Supervisor and Clerk for further audit testing.

For both audit objectives, performance criteria were based upon certain statutory requirements of the Town Law, the General Municipal Law and other guidance prescribed by the Office of the State Comptroller. Most notably, the Town Law details the deposit and disbursement requirements for the Supervisor and the Clerk.

To achieve our audit objective regarding the Supervisor and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and employees regarding the cash receipt and disbursement practices and procedures. We also interviewed Board members to gain an understanding of the procedures performed in completing the annual audit.
- We obtained a list of payments made to the Supervisor from the State, the County, the Town Justices, and the building inspector during the audit period and traced all significant payments to the accounting records and bank statements.
- We reviewed the Supervisor's non-payroll cash disbursement records for unusual¹⁵ and/or significant payments and traced a sample from his records to Board-approved claim vouchers, canceled check images, and abstracts (listing of audited claims) to ensure disbursements were properly recorded, supported and Board-approved. Our sample of disbursements was judgmentally selected based upon dollar value and payee name.
- We reviewed the Supervisor's bank statements for the period January 1, 2012, through December 31, 2012, for unusual items. We traced all non-check withdrawals, external transfers, and wire payments to other Town bank accounts or supporting documentation to determine that the withdrawals or wire payments were for an appropriate Town purpose.

¹⁵ Unusual activity could include checks payable to Town employees, unusual vendor names, or large/material payments.

- We reviewed non-payroll canceled check images, searching for checks paid to key Town officials including the Supervisor, account clerk, Clerk, and Deputy Town Clerk and traced all such payments to Board-approved claim vouchers and the accounting records.
- We scanned payroll canceled check images for checks paid to the Supervisor, account clerk, Clerk, and Deputy Town Clerk, and traced all such payments to payroll registers, accounting records, and pay rates to Board authorization. We reviewed the trust and agency bank statements and canceled check images to ensure no improper or unusual activity occurred.¹⁶
- We reviewed bank reconciliations and compared adjusted bank balances at month-end to general ledger cash accounts for the period January 2012 through October 2012.
- We reviewed the financial information provided to the Board by the Supervisor to determine if it was sufficient, timely and relevant. We interviewed Board members to determine if the financial information provided allowed them to provide proper oversight of the Town's finances.

To achieve our audit objective regarding the Clerk and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed the Clerk and her Deputy regarding practices and procedures for Clerk, water, sewer, and tax receipts.
- We examined the Clerk's records for the receipt, deposit, and disbursement of moneys, including deposit tickets, daily and monthly cashbook reports, monthly reports to the Supervisor, canceled check images, bank statements, tax bills, tax receipts, County tax settlement statements, and other related records.
- We reviewed the Clerk's cash receipts journal, daily cash reports, and bank statements to verify that recorded receipts were deposited intact and in a timely manner.
- We reviewed monthly bank reconciliations, monthly reports, and canceled check images to verify that payments to the Supervisor, the County, and other agencies were made as appropriate and in a timely fashion.
- We examined real property tax collections to determine if they were deposited timely and intact, and if payments were remitted to the Supervisor and the County in accordance with legal requirements.
- We performed a cash count of the Clerk's office to establish the amount of cash and checks on hand for comparison to the cash receipts records.

¹⁶ Unusual activity could include checks payable to Town employees, in-bank withdrawals, phone transfers other than to Town accounts, or debit transactions not for payroll withholdings.

- We examined bank deposit compositions for the Clerk's fees account, water and sewer rents, and real property tax receipts for deposits made during February 2012 to verify that the amounts received were recorded appropriately and deposited timely and intact.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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