



Town of Rossie

Records and Reports and Cash Disbursements

Report of Examination

Period Covered:

January 1, 2011 — December 31, 2012

2013M-168



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of Local Officials and Corrective Action	5
RECORDS AND REPORTS	7
Supervisor's Records and Reports	7
Annual Financial Reports	8
Annual Audit	9
Recommendations	9
CASH DISBURSEMENTS	11
Recommendations	13
APPENDIX A Audit Methodology and Standards	14
APPENDIX B How to Obtain Additional Copies of the Report	15
APPENDIX C Local Regional Office Listing	16

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 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 Rossie, entitled Records and Reports and Cash Disbursements. 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 Rossie (Town) is located in St. Lawrence County and has a population of 877. The Town Board (Board) comprises four elected members and a Town Supervisor (Supervisor). The Town offers a variety of services to its residents, including street maintenance and improvements, snow removal, and general government support.

The Town's 2012 budgeted expenditures totaled \$200,296 for the general fund and \$288,160 for the highway fund. These expenditures were funded with revenues from local taxes, State aid, and charges for services. The Supervisor serves as both the chief executive officer and chief fiscal officer. As chief fiscal officer, the Supervisor is responsible for virtually all of the Town's financial duties, including receipt and disbursement of Town moneys, maintaining financial records, and preparing various financial reports. The Board is responsible for overseeing the Town's operations and finances, including the audit and approval of claims prior to payment, and auditing the records of all Town officers and employees who handle cash.

Scope and Objective

The objective of our audit was to evaluate the Town's financial operations for the period January 1, 2011, through December 31, 2012. Our audit addressed the following related questions:

- Was the Town's financial activity accurately recorded and reported on a timely basis?
- Were cash disbursements appropriate and authorized?

Audit Results

The Supervisor did not maintain accurate computerized accounting records and reports. Balance sheet amounts did not agree with general ledger amounts and the balance sheet included unsubstantiated liability accounts. For example, the balance sheet account and general ledger accounts for the general fund checking account balance at December 31, 2012 differed by \$4,654. Because of these deficiencies, the Board did not have accurate information on which to base its financial decisions. Further, the Supervisor filed the Town's annual update document (AUD) 116 days late for 2008, 112 days late for 2009, and 374 days (more than a year) late for 2010. As of December 2012, the Supervisor had not filed the AUD for 2011. In addition, the Board has not ensured that the records of all Town officials and employees who handle cash are properly audited on an annual basis. Such an audit would have helped to detect the discrepancies in the Supervisor's records and allowed the Board to take corrective action.

The Board has not established a system to ensure that all claims are presented for audit prior to payment. We reviewed 110 randomly selected disbursements totaling \$142,058 and 121 high-risk disbursements totaling \$47,698 and identified 80 exceptions, totaling \$38,603. These exceptions included claims that bypassed the Board audit process, were inadequately audited by the Board, and lacked supporting documentation. When claims are not thoroughly audited and approved prior to payment, the risk is increased that payments could be made for non-Town purposes.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Town officials and their comments have been considered in preparing this report. Town officials were also given an opportunity to respond within 30 days in writing to our findings and recommendations. Town officials did not submit a written response within this time frame.

Introduction

Background

The Town of Rossie (Town) is located in St Lawrence County and has a population of 877. The Town Board (Board) comprises four elected members and a Town Supervisor (Supervisor). The Town offers a variety of services to its residents, including street maintenance and improvements, snow removal, and general government support.

The Town's 2012 budgeted operating expenditures totaled \$200,296 for the general fund and \$288,160 for the highway fund. These expenditures were funded with revenues from local taxes, State aid, and charges for services. The Supervisor serves as both the chief executive officer and chief fiscal officer. As chief fiscal officer, the Supervisor is responsible for virtually all of the Town's financial duties, including receipt and disbursement of Town moneys, maintaining financial records, and preparing various financial reports. The Board is responsible for overseeing the Town's operations and finances, including the audit and approval of claims prior to payment, and auditing the records of all Town officers and employees who handle cash.

Objective

The objective of our audit was to evaluate the Town's financial operations for the period January 1, 2011, through December 31, 2012. Our audit addressed the following related questions:

- Was the Town's financial activity accurately recorded and reported on a timely basis?
- Were cash disbursements appropriate and authorized?

Scope and Methodology

We examined the Town's financial operations for the period January 1, 2011, through December 31, 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 A 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 have been considered in preparing this report. Town officials were also given an opportunity to respond within 30 days in writing to our findings and recommendations. Town officials did not submit a written response within this time frame.

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

Records and Reports

The Supervisor is responsible for maintaining complete and accurate financial records, performing bank reconciliations, and preparing various financial reports in a timely manner. The Board is responsible for overseeing the Town's financial affairs and safeguarding its resources. These duties include providing reasonable assurance that cash and other resources are properly safeguarded, transactions are authorized and properly recorded, and financial reports are accurate, reliable, and filed in a timely manner. In addition, the Board is required to perform, or provide for, an annual audit of the Supervisor's records and reports, as well as all other Town officials and employees who receive and disburse money.

The Supervisor did not maintain accurate computerized accounting records and reports. Balance sheet amounts did not agree with general ledger amounts and the balance sheet included unsubstantiated liability accounts. For example, the balance sheet account and general ledger accounts for the general fund checking account balance at December 31, 2012 differed by \$4,654. Because of these deficiencies, the Board did not have accurate information on which to base its financial decisions. Further, the Supervisor filed the Town's annual update document (AUD) 116 days late for 2008, 112 days late for 2009, and 374 days (more than a year) late for 2010. As of December 2012, the Supervisor had not filed the AUD for 2011. In addition, the Board has not ensured that the records of all Town officials and employees who handle cash are properly audited on an annual basis. Such an audit would have helped to detect the discrepancies in the Supervisor's records and allowed the Board to take corrective action.

Supervisor's Records and Reports

The Supervisor is responsible for maintaining complete and accurate accounting records which follow the Uniform System of Accounts (USA) as prescribed by the Office of the State Comptroller (OSC). The records should be set up by fund and include account codes established by USA. Bank reconciliations should be properly performed on a monthly basis and any discrepancies should be investigated and resolved.

The Supervisor did not maintain accurate computerized accounting records and reports. General ledger cash accounts did not always agree with the balance sheet, and ending cash balances did not always agree with the subsequent year's opening balances. For example, the balance sheet account representing the general fund checking account balance at December 31, 2012, was \$11,935; the general ledger balance for the same account was \$7,281 (a difference of \$4,654). The

January 1, 2013 opening balance in the general ledger was \$15,575 (an increase of \$8,294 with no documentation supporting the reason for the change).

In addition, we identified problems with the Supervisor's bank reconciliations. The Supervisor told us that he performed computerized bank reconciliations at mid-month (as of the date he actually performed the reconciliation) instead of at month-end. He did not record the date of the reconciliations and we were unable to compare the balances he used to his records to determine whether he completed the reconciliations properly. We performed a bank reconciliation of all the accounts as of December 31, 2012, and calculated that the total adjusted bank balance for all funds was \$188,425, which was greater than the balance sheet by \$13,188.

Furthermore, balance sheet reports were not accurate and included unsubstantiated liability accounts. For example, account balances were being carried for a \$44,000 bond anticipation note (BAN) and \$57,900 of accounts payable which were errors from years ago that the Supervisor stated could not be reversed in the computer system.

Computerized accounting records were not set up on a fund basis and did not follow USA account codes. The system in place used one account titled Retained Earnings instead of a separate fund balance account for each fund.¹ In addition, revenue and expenditure account codes did not follow USA, which inhibits preparation of the annual financial reports to OSC.

The Supervisor's failure to maintain accurate financial records limits Town officials' ability to identify and correct errors and irregularities. In addition, the Supervisor cannot provide accurate financial reports to the Board that are necessary to make informed financial decisions. Lack of accurate financial records and reports also increases the risk of loss or unauthorized use of Town funds.

Annual Financial Reports

Local governments are required by law to annually complete and file with OSC a detailed report of all financial activity for the preceding year. This report, known as the annual update document, provides the Board, OSC, and Town residents with a tool for monitoring financial operations. The Supervisor is required to complete and submit the Town's AUD no later than 60 days after the close of the fiscal year. In the event that the Town anticipates missing the deadline, Town officials can request an extension that allows the Town up to 120 days to file the AUD. While it is the Supervisor's responsibility to

¹ The Town has a general fund, highway fund, fire protection district, and a cemetery fund.

complete and file this report, the Board should have procedures in place to review this report for accuracy.

The Supervisor filed the Town's AUD 116 days late for 2008, 112 days late for 2009, and 374 days (more than a year) late for 2010. As of December 2012, the Supervisor had not filed the AUD for 2011. The deficiencies in the records contributed to the Supervisor's inability to file the AUD on time.

Without timely annual financial reports, it is difficult for the Board to monitor the Town's financial operations or for Town officials to make prudent financial decisions.

Annual Audit

Town Law requires that the Board annually audit, or have an independent public accountant audit, the records and reports maintained by the Supervisor, as well as all Town officials and employees who handle cash. This annual audit serves as an important internal control over cash receipts and disbursements by providing independent verification that transactions have been properly recorded and that cash has been properly accounted for. It also provides Board members with an added measure of assurance that the financial records and reports contain reliable information on which to base financial decisions.

Although the minutes indicate that the Board reviewed monthly financial reports, the Board did not audit, or contract with an independent auditor to audit, the supporting records maintained by the Supervisor, Town Justice, Town Clerk, Tax Collector, or Code Enforcement Officer for the 2011 and 2012 fiscal years. Reviewing various reports without inspecting the supporting accounting records and documents, such as bank statements and canceled checks, significantly reduces the effectiveness of this control.

The Board's failure to conduct a proper annual audit of the Supervisor's records and reports precluded the Board from having assurance that the Supervisor was properly accounting for all of the Town's financial resources. Had the Board conducted an annual audit, it may have identified the Supervisor's inaccurate computerized accounting records.

Recommendations

1. The Supervisor should maintain accurate accounting records and reports.
2. The Supervisor should ensure that bank reconciliations agree with accounting records, and that all discrepancies are investigated and corrected immediately.

3. The Supervisor should file the Town's annual financial reports within the prescribed statutory period.
4. The Board should perform annual audits of the records and reports of the Supervisor, Town Justice, Town Clerk, Tax Collector, and Code Enforcement Officer, or have an independent public accountant do so.

Cash Disbursements

The Board is responsible for overseeing the Town's finances and operations, and safeguarding Town assets. Part of this responsibility includes conducting a thorough review of each claim prior to payment to ensure that cash disbursements are appropriate and authorized.² The audit of claims should be a deliberate and thorough process to determine whether proposed payments are proper, and whether the Town's purchasing procedures and applicable laws have been followed. All claims must be for valid Town expenditures; be written, itemized, and accurate; include evidence of approval of the Town official responsible for the purchase; and include evidence that the goods or services have been received. The Supervisor should ensure that no payments are made without Board approval as evidenced by a certified abstract of audited claims prepared by the Town Clerk.

The Board has not established a system to ensure that all claims are presented for audit prior to payment. We reviewed 110 randomly selected disbursements totaling \$142,058 and 121 high-risk disbursements totaling \$47,698 to determine appropriateness, presence of supporting documentation, departmental approval, and proper authorization including documentation of Board audit and approval prior to payment. We identified 80 exceptions, totaling \$38,603, as detailed below.

Unauthorized/Unsupported Disbursements – The Supervisor issued 38 checks totaling \$15,580 during 2011 and 2012 for which there were no claims or supporting documentation on file. These disbursements included 11 checks totaling \$2,531 made payable to either the Supervisor or cash.

The Supervisor told us that the checks made payable to himself were for reimbursements of his personal funds. However, he did not provide us with documentation to support that he had made any Town purchases with his own personal funds. The Supervisor also explained that \$900 of the checks written to cash were for highway employee cash bonuses; however, these bonuses were improper because the highway department contract does not include a provision allowing cash bonuses. Additional compensation fixed as a reward for services already rendered and fully compensated, such as a bonus, generally constitutes a mere gratuity and an improper gift of public moneys.³

² Exceptions to the prior audit requirement include payments for public utility services, postage, freight, and express charges, if authorized by Board resolution.

³ New York State Constitution, Article VIII, Section 1

While six of the 38 payments were listed on abstracts, the remaining 32 payments totaling \$11,487 (which include the \$2,531 discussed above) were not audited and approved by the Board. Without supporting documentation, we were unable to determine whether these payments were for proper Town purposes. An additional 17 checks totaling \$6,130 were not listed on abstracts as audited and approved for payment by the Board, although there were claims on file to support these disbursements.

Payments Made Prior to Authorization and Pre-Signed Checks – The Supervisor improperly issued eight checks totaling \$2,117 prior to Board audit and approval. Although all eight claims were audited and approved at the following Board meeting after payment, they were not exceptions to claims audit requirements. The Supervisor stated that he gives Town officials pre-signed blank checks to make certain purchases (e.g., office supplies and recreation committee purchases). Because the Supervisor issues pre-signed checks, the risk is greatly increased that improper purchases could be made using Town funds.

Sufficiency of Board Audit – The Board audited and approved 17 claims totaling \$14,776 for payment that lacked written documentation of departmental approval. Without such approval, there is no attestation from the officer or employee who initiated the claim that the goods and services were received and that the charges are correct.

Furthermore, while conducting our tests, we identified bank fees totaling \$10,173 throughout 2011 and 2012 that were not authorized by the Board. Of this total, \$8,094 was for monthly analysis reports⁴ sent to the Supervisor. Although the Supervisor stated that he had requested the bank to stop sending the reports, the bank refused to do so. The Board gave approval for the Supervisor to switch official depositories as of January 2013 to avoid paying these fees. The remaining \$2,079 were overdraft fees which could have been avoided if the Supervisor had monitored bank balances more closely.

The Board's lack of oversight increases the risk of errors and irregularities occurring and going undetected. Without properly auditing and approving all claims before payment, the Board does not have adequate assurance that the purchases were for valid Town purposes. In addition, when claims are routinely paid without the Board's audit and blank checks are pre-signed, there is an increased risk of misuse or diversion of Town funds.

⁴ The analysis reports contained information on all of the Town's accounts, such as average balance, rate information, number of deposits received, and number of checks paid.

Recommendations

5. The Board should establish policies and procedures to ensure that all disbursements made by the Supervisor are properly authorized and supported with documentation on file.
6. The Supervisor should only issue checks that have been authorized by the Board, unless otherwise allowed by law.
7. The Supervisor should not issue checks payable to cash.
8. Town officials should refrain from making gifts of public funds to employees.
9. The Supervisor should monitor bank accounts to ensure adequate balances to prevent overdraft charges.

APPENDIX A

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, our examination included the following:

- We interviewed appropriate Town officials and reviewed pertinent documents, such as Town policies, Board minutes, and financial records and reports.
- We reviewed bank statements, images of canceled checks, bank reconciliations, claims, and abstracts. We performed bank reconciliations for December 31, 2012.
- We randomly selected 110 cash disbursements (using a random number generator) and judgmentally selected 121 high-risk disbursements from 2011 and 2012. We reviewed the corresponding supporting documentation (if available) for appropriateness and Board authorization.
- We traced all known cash receipts documentation for 2011 and 2012 to bank deposits.
- We interviewed Town officials and reviewed Board minutes to determine if the Board conducted or obtained annual audits of the records and reports of officers or employees who received or disbursed moneys.

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 B

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