



Town of Covington Town Supervisor

Report of Examination

Period Covered:

January 1, 2012 — November 13, 2013

2013M-371



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2014

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 Covington, entitled Town Supervisor. 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 Covington (Town) is located in Wyoming County and has a population of 1,232. 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 and general government support. The Town's 2013 budgeted appropriations for all funds totaled \$755,985 and were funded primarily by real property taxes, State aid, intergovernmental charges and other miscellaneous revenues.

The Town Supervisor (Supervisor) is the chief executive officer and chief fiscal officer. The Supervisor, who is a member of the Board, has the overall responsibility for receiving Town moneys, 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. The Supervisor appointed a bookkeeper to assist him in fulfilling his financial duties.

Objective

The objective of our audit was to review the Supervisor's financial records and reports. We addressed the following related question:

- Did the Supervisor record, deposit, disburse and report all moneys collected in a timely and accurate manner?

Scope and Methodology

We examined the Supervisor's financial records and reports for the period of January 1, 2012 through November 13, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix 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 the findings and recommendations and indicated that they are taking 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.

Town Supervisor

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

The Supervisor did not properly maintain the Town's accounting records. Specifically, the Supervisor did not record all receipts and disbursements, which left the Town's accounting records incomplete. The Supervisor also made disbursements that were not audited by the Board and were not included on the abstract of audited claims. We also found that bank reconciliations were not prepared. Additionally, the Supervisor did not submit adequate monthly financial reports to the Board and the Board did not perform an annual audit of the Supervisor's records and reports, as required by the Town Law. The lack of adequate and timely accounting records makes it difficult for the Board to determine the Town's true financial condition or effectively monitor the Town's financial operations.

We found that the Supervisor did not record most of the money he received in 2013. We reviewed all payments from the Town Clerk, the Town Justices and the Town Tax Collector for the period of January 1 through October 31, 2013. We found that, while all payments were deposited within 10 days of receipt and intact, none of the 29 receipts totaling \$646,855 were recorded in the Town's accounting records as of November 1, 2013.

Additionally, the accounting records for the 2012 fiscal year were not available for review as the computer used to store the information was not working properly. The Supervisor had neither backed up the records to another computer nor printed out the financial records.

During our review of the Town's annual financial report that was filed with the Office of the State Comptroller for the 2012 fiscal year, we found that the Supervisor apparently did not record Clerk fees totaling \$1,208 and State aid totaling \$14,773. We subsequently found that these moneys were deposited but not included in the annual financial report. The Board was unaware of these issues because the monthly financial reports presented to the Board only showed deposits and bank balances.

Due to the inadequate accounting records and Board oversight, we reviewed all 260 non-payroll general fund canceled checks for the period November 1, 2012 through October 31, 2013 and identified

numerous exceptions. We identified 98 instances, totaling \$123,764, where payments were made without a claim voucher. Furthermore, 41 of these payments totaling \$96,498 were not listed on an abstract of audited claims. The payments were primarily for utility bills, phone bills, health insurance and other miscellaneous costs. We also identified six instances, totaling \$92,374, where disbursements were not recorded in the accounting records, which were primarily for fire protection services.

Although certain payments without claim vouchers were included in the abstracts, a properly prepared claim voucher package helps to ensure that payments will only be authorized for goods and services actually received, that are of acceptable quality, and that further a lawful purpose of the Town. Furthermore, a complete claim voucher package also lessens the risk that unauthorized purchases and services will be paid without detection.

In addition, we reviewed all non-check withdrawals, external transfers, and wire payments to other Town bank accounts or supporting documentation¹ and found that the Town had paid a total of \$892 in fees and charges² for unnecessary payroll services as of October 28, 2013. We informed the Supervisor of these fees and charges. He contacted the bank and had these automatic payments stopped. We also performed other various tests³ and discussed identified exceptions and deficiencies with Town officials.

These deficiencies occurred because of insufficient Board oversight. The Board did not audit the Supervisor's records and reports as required⁴ or require that he submit adequate financial information to the Board. Consequently, the Board did not ensure that the Supervisor properly fulfilled his financial duties. The lack of the Board's involvement and oversight of financial activities and operations, without compensating controls, increases the risk that errors or irregularities can occur and go undetected. The Board's failure to ensure that the Supervisor only disburses funds after a proper Board audit increases the risk of misappropriation of funds. Poor and incomplete records also affect the Supervisor's ability to file the annual financial report accurately and in a timely manner. Consequently, due to the poor condition of the Town's financial records and reports, the Board was unable to determine the Town's true financial condition or effectively monitor the Town's financial operations.

¹ For the period of January 1, 2012 through October 31, 2013

² The Town changed payroll service providers in December 2012 but continued to pay the previous vendor.

³ As described in Appendix B, Audit Methodology and Standards

⁴ Pursuant to the Town Law

For example, we found that the highway fund does not have sufficient fund balance to cover its operations if it pays back a \$139,000 interfund loan to the general fund. At the end of the 2012 fiscal year, the Town reported that the highway fund had a negative balance of \$7,610 in unassigned fund balance. Due to the significant accounting issues in the 2013 fiscal year, the Board does not have sufficient information to determine whether the fund's condition has worsened nor to prepare a multiyear plan to remedy the situation.

Recommendations

1. The Supervisor should maintain accurate, complete and up-to-date accounting records and should consider either appointing a bookkeeper with sufficient technical skills or contracting with an accounting firm to fulfill certain financial duties, subject to Board approval.
2. The Supervisor should properly prepare bank reconciliations and periodically submit the bank reconciliations to the Board for its review.
3. The Board should ensure that the Supervisor submits detailed monthly statements of all moneys received and disbursed to the Board.
4. The Supervisor should disburse Town moneys only after claims have been properly audited by the Board and included on the abstract of audited claims prepared by the Town Clerk.
5. The Board should annually audit the Supervisor's records as required.
6. The Board should develop a multiyear plan to improve the highway fund's financial condition.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Town of Covington

7083 Court Road PO Box 128

Pavilion, NY 14525

NYS Comptroller Office

295 Main Street Suite 1032

Buffalo, NY 14203-2510

Dear Sirs,

In response to your Audit of the Town of Covington Financials, we can't dispute most of the findings, however there were several reasons why are records were in disarray. In 2011 my bookkeeper was found to have a serious illness, she still tried to do the books in 2012 but finally had to resign in December 2012. We then contracted with a company to redo our computer program and I was going to try to maintain the books. The new program was not installed until mid year, in the mean time we had our computer crashed and could not retrieve our data so that once the new program was installed we had to reconstruct our financial records into the new program. We were in the process when you started the audit.

I personally had some family issues at the end of 2012 which caused me to be distracted which is why the two deposits were not recorded properly and were missed on the AUD.

We can not disagree with the audit findings. We have completed the first five recommendations and are in the process of developing a plan for number six.

Jerry L Davis

Town of Covington Supervisor



APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine whether the Supervisor accurately and completely records, deposits, disburses and reports all moneys collected. To accomplish this, we interviewed appropriate Town officials, tested selected records, and examined pertinent documents for the period of January 1, 2012 through November 13, 2013. Our procedures included the following:

- We interviewed Town officials to gain an understanding of the internal controls over the recording, depositing, disbursing and reporting of the moneys collected.
- We interviewed Board members to gain an understanding of the procedures performed in completing the annual audit.
- We interviewed Board members to determine if the financial information provided allowed them to provide proper oversight of the Town's finances.
- We obtained all payments made to the Supervisor from the Town Clerk, the Town Justices and the Town Tax Collector for the period of January 1, 2013 through October 31, 2013 and traced all payments to the accounting records and bank statements. We also verified that receipts are deposited and recorded in a timely fashion and intact.
- We obtained all bank statements for the period of January 1, 2012 through October 31, 2013 and reviewed them 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.
- We selected all 260 general fund non-payroll canceled checks and judgmentally selected a sample of 56 highway fund non-payroll canceled checks and compared them to the accounting records, Board-approved claim vouchers and abstracts to ensure that disbursements were properly recorded, supported and approved for the period of November 1, 2012 through October 31, 2013.
- We reviewed non-payroll canceled check images to search for checks paid to key Town officials including the Supervisor, Town Clerk and Town Justices and compared all such payments to Board-approved claim vouchers and the accounting records for the period of January 1, 2013 through October 31, 2013.
- We scanned payroll canceled check images for checks paid to the Supervisor and the Town Clerk and compared all such payments to payroll registers, accounting records, and pay rates to Board authorizations for the period of January 1, 2013 through October 31, 2013.
- We reviewed trust and agency bank statements and canceled check images for the period of January 1, 2013 through October 31, 2013 to ensure no improper or unusual activity occurred.

- We reviewed the financial information provided to the Board by the Supervisor to determine if it was sufficient, timely and relevant.

We conducted this performance audit in accordance with 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 C

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