



Town of Caroga Supervisor's Records and Reports

Report of Examination

Period Covered:

January 1, 2014 — April 30, 2015

2015M-182



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2015

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 Caroga, entitled Supervisor's Records and Reports. 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 New York State General Municipal Law.

This audit's results 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 Caroga (Town) is located in Fulton County and has approximately 1,200 residents. The Town provides various services including road maintenance, snow removal, parks and recreation and general government support. The Town's 2015 budgeted appropriations total approximately \$2.2 million and are funded primarily by real property taxes, sales tax, user fees and State aid.

An elected five-member Town Board (Board), which is composed of four Council members and the Town Supervisor (Supervisor), governs the Town. The Board is responsible for the general management and oversight of the Town's financial affairs. The Supervisor, who serves as the Town's chief executive officer and chief fiscal officer, is responsible for maintaining custody of all Town money, maintaining accounting records and filing required financial reports. The Supervisor is also responsible for providing the Board with timely, accurate and useful financial information so it can make informed financial decisions. The Supervisor has appointed a bookkeeper to assist him with his day-to-day accounting duties.

Objective

The objective of our audit was to assess the completeness and accuracy of the Town's records and reports. Our audit addressed the following related question:

- Did the Supervisor maintain complete and accurate accounting records and reports?

Scope and Methodology

We examined financial records and reports for the period January 1, 2014 through April 30, 2015.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of Local Officials and Corrective Action

The results of our audit 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 they planned to initiate 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.

Supervisor's Records and Reports

The Town's financial records must be complete, accurate and up-to-date to be useful for managing Town operations. The Supervisor, as chief fiscal officer, is responsible for maintaining adequate accounting records and financial documents that provide an accurate accounting of all financial transactions. The Supervisor must also provide the Board with comprehensive monthly reports that include complete and accurate financial information for each Town fund. Further, the Supervisor is required to prepare and file an annual financial report (AUD) with the Office of the State Comptroller (OSC) within the time limits prescribed by law.¹

In addition, the Supervisor must prepare monthly bank reconciliations to ensure the identification and documentation of differences between the Town's cash balances and those reported by the bank in a timely manner. If the Supervisor assigns recordkeeping duties to a bookkeeper, sufficient oversight must be provided to ensure the bookkeeper's records are reliable and up-to-date. Finally, New York State Town Law requires that the Board annually audit, or have an independent public accountant audit, the Supervisor's records.

The Supervisor did not maintain complete, accurate and up-to-date accounting records and reports or provide adequate oversight of the bookkeeper during our audit period. The lack of oversight and the bookkeeper's failure to record all transactions in a timely manner and prepare monthly bank reconciliations caused the accounting records to be inaccurate and incomplete. As a result, the Supervisor could not provide the Board with sufficient monthly financial reports to allow it to adequately monitor and manage the Town's financial operations. The Supervisor also did not file the required 2013 and 2014 AUDs with OSC in a timely manner. In addition, the Board did not perform annual audits of the Supervisor's records.

Financial Records

The Supervisor is responsible for maintaining complete and accurate accounting records to ensure that assets, liabilities, fund balance and results of operations (revenues and expenditures) accurately reflect all Town financial activity. The Supervisor is also responsible for ensuring that monthly bank statement balances are reconciled with the cash balances recorded in the Town's records to help verify that all cash receipt and disbursement transactions are captured and properly

¹ General Municipal Law (GML) requires the Supervisor to file an annual financial report with OSC and the Town Clerk within 60 days from the close of the Town's year-end. In the event Town officials anticipate missing the deadline, an extension can be requested allowing the Town up to 120 days to file the report.

recorded. In addition, Town Law requires the Supervisor to keep a complete and accurate account of the receipt and disbursement of all Town funds. All general ledgers, cash receipt and disbursement journals and subsidiary revenue and appropriation ledgers must be maintained in a complete, accurate and timely manner.

We found that the bookkeeper did not properly maintain the Town's accounting records. The Town's accounting records appropriately included data from the adopted budget and disbursements paid by checks generated by the financial management system. This allowed the bookkeeper to process claims, pay bills and monitor disbursements against the Town's adopted budget in certain line items. However, the bookkeeper did not record all financial transactions in the accounting system, including payroll expenditures, disbursements that were paid electronically, hand drawn checks, cash receipts and bank transfers.

For example, during our review of the Town's 2014 accounting records, we found the bookkeeper did not record payroll expenditures totaling \$574,910, electronic payments totaling \$52,262, receipts totaling approximately \$1.8 million and transfers between Town bank accounts totaling \$575,185. At the time of our audit in April 2015, the 2014 year-end closing entries had not yet been completed or entered into the accounting system. Similarly, during our review of the Town's accounting records for the period January 1 through April 30, 2015, we found the bookkeeper did not record payroll expenditures totaling \$214,450, electronic payments totaling \$23,150, receipts totaling approximately \$1.2 million and transfers between Town bank accounts totaling \$590,750.

Because the accounting records were inaccurate and incomplete, the bookkeeper was unable to reconcile the bank statement balances with the cash balances recorded in the accounting records (see Reconciliations section) or generate reports that contained timely, accurate and useful financial information. The Supervisor was unaware of these deficiencies because he did not review the bookkeeper's work. The Board was unaware of the condition of the accounting records because the Supervisor did not provide monthly bank statements or bank reconciliations. Further, Town officials were unable to determine how the Town's actual results of operations (i.e., actual revenues and expenditures) compared to the budgetary estimates, assess the Town's true financial position and the amount of year-end fund balance² or prepare reliable 2015 budget estimates.

² Fund balance is the difference between revenues and expenditures accumulated over a period of time.

Because of these deficiencies, we used the Town's bank statements and made necessary adjustments for transactions not recorded in the Town's accounting system to project the Town's December 31, 2014 fund balances for the general and the highway funds. We estimated that year-end general fund balance was approximately \$970,000 and year-end highway fund balance was approximately \$240,000. Based on our projections, general fund balance increased by approximately \$70,000 and highway fund balance decreased by approximately \$75,000. Additionally, we estimated that the Town's general unassigned fund balance³ was \$610,000, after considering the \$165,000 appropriated for the 2015 adopted budget, which is 50 percent of 2015 general fund appropriations.

We reviewed these projections with the Supervisor and the bookkeeper and provided guidance on recording these transactions as they occur to keep the books current and accurate. We also suggested that the bookkeeper attend training that is conducted periodically by our office and referred her to the training page of the OSC website.

Reconciliations

Town money that is deposited in bank accounts or invested should be monitored and controlled. Reconciliations between amounts recorded in the Town's financial records and information provided by the bank (e.g., bank statements) are a key component of monitoring and controlling these assets.

A bank statement reconciliation is a schedule showing and explaining the differences between the cash balance reported on the bank statement and the cash balance per the accounting records. The reconciliation is a method to determine that all the differences between the cash balance per the accounting records and the bank statement are accounted for as of a specific date. The reconciled bank balance should always agree with the recorded cash balance in the accounting records.

We found that the bookkeeper did not perform bank reconciliations during our audit period. However, as previously mentioned, the condition of the accounting records would have made it impossible to accurately reconcile the bank statement balances to the cash balances in the accounting records. Had the Supervisor or the Board required that the bookkeeper prepare and submit bank reconciliations for review, along with the supporting documentation, they would have noticed that the Town's accounting records were not current or complete.

³ Unassigned fund balance is the portion of fund balance that has not been used as a financing source for the current budget, allocated to a legally established reserve or assigned for a specific Town purpose.

Financial Reports

The Board's ability to make sound financial decisions is hampered when it does not receive complete, accurate and timely financial information. Interim and annual financial reports are essential tools needed by the Board to properly conduct its fiduciary oversight responsibilities. Additionally, financial reports are only as accurate as the accounting records on which they are based.

Town Law requires the Supervisor to provide a monthly report to the Board which provides a detailed accounting of all money received and disbursed. Good business practices dictate that the Supervisor submit monthly financial reports to the Board. These reports should contain balance sheet account balances (asset, liability and fund balance) and detailed year-to-date budget-to-actual comparisons of revenues and expenditures for each fund. Detailed financial reports enhance the Board's ability to oversee financial activities and monitor the Town's budget. Further, as budgetary appropriations are exhausted, it is important for the Supervisor to advise the Board of budgetary accounts that may not be sufficient and propose budgetary adjustments as necessary.

GML requires the Town Supervisor to annually file the AUD with OSC and the Town Clerk within 60 days from the close of its fiscal year.⁴ The financial information presented in the AUD should be accurate and supported by the Town's accounting records. The AUD is an important fiscal tool that provides the Board with necessary information to monitor Town operations and provides other interested parties with a summary of the Town's financial activities.

During the audit period, we found that the Supervisor did not provide the Board with monthly financial reports. As previously discussed, the condition of the accounting records would have prevented the production of accurate financial reports from the accounting system. Consequently, multiple Board members expressed concern to us regarding the lack of financial information being provided. Without accurate information showing the Town's financial position, it would be difficult for the Board to develop accurate 2016 estimates for revenues and appropriations for the 2016 budget and to effectively manage the Town's finances.

The bookkeeper told us that because she was unable to bring the accounting records up-to-date, she could not prepare and file the 2013 and 2014 AUDs in a timely manner. Before we completed our audit fieldwork, the bookkeeper successfully filed the 2013 AUD and had made significant progress toward updating the accounting records for 2014. However, the failure to file timely AUDs denied the Board

⁴ In the event the Town anticipates missing the deadline, Town officials can request an extension that allows the Town up to 120 days to file the report.

and the public the ability to monitor the Town's financial affairs and accurately assess the Town's financial condition.

Annual Audit

Town Law requires the Supervisor to present his books and records to the Board for audit by January 20th of the following year.⁵ An annual audit helps the Board fulfill its fiscal oversight responsibilities by providing it with an opportunity to assess the reliability of the books, records and supporting documents. It also serves to identify conditions that need improvement and provides useful information to help the Board oversee the Town's financial operations.

The Board was not aware of this requirement and did not perform, or provide for, annual audits of the Supervisor's records for 2013 and 2014. Had the Board performed the required audits, it would have discovered that the Town's accounting records were not current or complete and that monthly bank reconciliations were not being prepared.

Recommendations

The Supervisor should:

1. Periodically review the bookkeeper's work to ensure that all financial activity is accurately and completely accounted for and that monthly bank reconciliations are performed and any discrepancies are promptly investigated and corrected.
2. Provide monthly financial reports to the Board that include balance sheet account balances and detailed year-to-date budget-to-actual comparisons of revenues and expenditures for each fund as well as monthly bank reconciliations and bank statements.
3. Ensure that the Town's AUD is filed with OSC and the Town Clerk within the required time limits.

The Board should:

4. Conduct an annual audit of the Supervisor's records or engage an independent auditor to conduct the audit.

⁵ The Board may also engage the services of a certified public accountant or public accountant to perform the annual audit within 60 days of the close of the fiscal year.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF CAROGA

**Our Response and Corrective Plan to:
Report of Examination
Period Covered: 1/1/2014-4/30/2015**

This report is in response to the audit conducted by the Office of the State Comptroller for the above-mentioned period. The following is in response to the audit's findings and how the Town of Caroga may better itself to follow proper procedures and guidelines to maintain complete and accurate accounting records and reports.

Let us first start out by saying, and as discussed with the field examiners that audited the Town's financial records, we are positive that if there had been an audit in another timeframe there would have been a totally different outcome. We are also 110% (one hundred ten percent) sure that our financial records would have been in perfect order.

Our current bookkeeper has been with the Town of Caroga for 29 (twenty-nine) years and has been through numerous audits conducted by your department as well as a single audit by a private accounting firm that have been more than acceptable. Due to unforeseen medical emergencies things fell off track. This emergency medical situation created her being absent from the office for approximately a year.

While we recognize this should not excuse the supervisor from making sure that the financial records are in order or, in some cases, the town board members, we did however feel compassion for an employee that had been with the Town as long as she had been and knew that time would make things right from her prior history with the Town of Caroga. Unfortunately that did not happen in time for the audit.

Going forward, and we can only speak for this current town board, we will handle such an emergency by immediately consulting an outside person or agency to conduct the town's financial business until such time that the employee can return to his/her position.

Town of Caroga
Response & Corrective Plan
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It is unanimously agreed by this board that it will take steps to ensure proper accounting records by doing an annual inspection of the supervisor/bookkeeper records. The supervisor and town board have been educated from the valuable suggestions and advice that was received during the exit conference and fully intend to put policies and procedures in place to conduct an **annual** internal audit. If for some reason this cannot be done within by the town board, we will hire an outside agency to do the annual inspection of the town's financial records.

Along with this letter, the Town of Caroga has filed its 2014 Annual Financial Report. We will also make sure that we are cognizant of the Annual Financial Report being filed properly and on time. The town financial records have been posted and reconciled for 2015 and the Town Board has resumed receiving copies each month of its financial reports.

In closing, we can only hope that any policies and procedures will be followed by future supervisors and/or board members to avoid any repetition of this situation.

Very respectfully yours,

Ralph Ottuso, Supervisor

Robert Sullivan, Deputy Supervisor/Councilmember

Anthony Sturchio, Councilmember

Greta Frasier, Councilmember

John Glenn, Councilmember

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to assess the completeness and accuracy of the Town's records and reports for the period January 1, 2014 through April 30, 2015. To achieve our objective and obtain valid audit evidence we performed the following audit procedures:

- We interviewed the Supervisor and bookkeeper to gain an understanding of the accounting records and document why the 2013 and 2014 AUD had not been submitted to OSC in a timely manner.
- We interviewed Town officials to determine if the Board audited or caused an audit of the records and reports of all officers and employees who received and disbursed money.
- We interviewed Board members to determine if they received monthly reports of the Town's financial activity including cash reconciliations and budget-to-actual results of operations.
- We obtained and reviewed all bank statements for the audit period.
- We reviewed the Town's computerized financial records and compared them to Town's bank statements to determine the completeness, accuracy and reasonableness of the financial records generated from the accounting system.
- We reviewed all transfers between bank accounts and certificates of deposit for January 1 through April 30, 2014 and traced them to supporting documentation to determine if these transactions were for valid Town purposes.
- We compared cash balances on the reconciled December 2013 bank statements with the cash balances reported on the 2013 AUD to determine if the amounts agreed.
- We calculated the 2014 revenues, expenditures and estimated ending fund balance based on cash activity in the Town's bank statements and expenditures entered into the accounting records in 2014 and 2015

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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