



Town of Caton

Supervisor's Records and Reports

Report of Examination

Period Covered:

January 1, 2011 — July 31, 2014

2014M-359



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
EXECUTIVE SUMMARY	2
INTRODUCTION	4
Background	4
Objective	4
Scope and Methodology	4
Comments of Town Officials and Corrective Action	4
SUPERVISOR'S RECORDS AND REPORTS	6
Financial Records	6
Financial Reports	12
Segregation of Duties	13
Recommendations	14
APPENDIX A Response From Town Officials	16
APPENDIX B OSC Comments on the Town Official's Response	20
APPENDIX C Audit Methodology and Standards	21
APPENDIX D How to Obtain Additional Copies of the Report	23
APPENDIX E Local Regional Office Listing	24

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 Caton, 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 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 Caton (Town) is located in Steuben County and has a population of about 2,200. The Town Board (Board), which comprises the Supervisor and four council members, is the legislative body responsible for managing Town operations and for overseeing its financial activities. The Town Supervisor (Supervisor), as the chief financial officer, has the overall responsibility to receive and disburse Town money, maintain the accounting records, prepare and distribute monthly financial operating reports to the Board and department heads and prepare and file annual financial reports with the Board and the Office of the State Comptroller (OSC). The Supervisor has appointed a bookkeeper and payroll clerk to assist with these responsibilities.

The Town provides various services to its residents, including street maintenance and snow removal, parks and recreation and general government support. The Town's budgeted appropriations for 2014 were approximately \$1.5 million. These appropriations were funded primarily with revenues from real property taxes, sales tax and State aid.

Scope and Objective

The objective of our audit was to determine if the Supervisor properly accounted for and reported the Town's financial transactions for the period January 1, 2011 through July 31, 2014. Our audit addressed the following related question:

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

Audit Results

The Supervisor did not prepare accounting records in an accurate or timely manner. The Supervisor relied on the bookkeeper to maintain the Town's financial records. However, the bookkeeper did not have the training to record transactions that were not routine, such as the funding and use of reserves. Further, the Supervisor did not provide the bookkeeper with necessary training, guidance or oversight to ensure that she maintained accurate and complete records. As a result, the Town's financial records were inadequate and could not be relied on by the Board to make financial decisions.

For example, budgetary control accounts were not in balance with the amounts recorded in the subsidiary appropriation ledgers. The 2011 highway budget control account on the trial balance for appropriations was \$1,081,451. This did not match the recorded appropriations on the detail of expenditure report of \$997,451 because a general journal entry for \$84,000 related to reserves was

recorded in the control account. Further, the control accounts for actual revenues and expenditures did not agree with the amounts recorded in 2011 for general fund expenditures and highway fund revenues, 2012 for highway fund expenditures and 2013 for highway fund subsidiary ledgers. For example, the 2012 expenditure control account on the trial balance for the highway fund was less than actual expenditures on the detailed expenditure report by \$144,017.

In addition, as a result of improper journal entries, the December 31, 2013 book balance for reserves was \$247,040 less than it should have been. The Supervisor did not perform effective reconciliations that would have timely identified errors when they could have been more easily corrected. The Supervisor also provided the Board with inaccurate interim financial reports, submitted an inaccurate annual report to OSC and did not file other annual reports with OSC in a timely manner. Without accurate, timely financial reports, the Board is unable to properly manage the Town's finances, and residents are denied the transparency necessary to assess the Town's operations.

We also found that the bookkeeper's and payroll clerk's financial responsibilities were not properly segregated, putting the Town's financial resources at greater risk. The bookkeeper is responsible for all aspects of the accounting process, and the payroll clerk is responsible for all aspects of the payroll process. After our fieldwork, the Supervisor directed the payroll clerk and bookkeeper to reconcile each other's bank statements as a mitigating control to reduce the risk. The payroll clerk also is the computer system administrator, which gives him the opportunity to initiate inappropriate financial transactions and conceal them in the records.

Comments of Town 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. Except as indicated in Appendix A, Town officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix B includes our comments on issues Town officials raised in their response.

Introduction

Background

The Town of Caton (Town) is located in Steuben County and has a population of about 2,200. The Town Board (Board), which comprises the Supervisor and four council members, is the legislative body responsible for managing Town operations and for overseeing its financial activities. The Town Supervisor (Supervisor), as the chief financial officer, has the overall responsibility to receive and disburse Town money, maintain the accounting records, prepare and distribute monthly financial operating reports to the Board and department heads and prepare and file annual financial reports with the Board and the Office of the State Comptroller (OSC). The Supervisor has appointed a bookkeeper and payroll clerk to assist with these responsibilities.

The Town provides various services to its residents, including street maintenance and snow removal, parks and recreation and general government support. The Town's budgeted appropriations for 2014 were approximately \$1.5 million. These appropriations were funded primarily with revenues from real property taxes, sales tax and State aid.

Objective

The objective of our audit was to determine if the Supervisor properly accounted for and reported the Town's financial transactions. Our audit addressed the following related question:

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

Scope and Methodology

We examined the Supervisor's records and reports for the period January 1, 2011 through July 31, 2014.

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 C of this report.

Comments of Town 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. Except as indicated in Appendix A, Town officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix B includes our comments on issues Town officials raised in their 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 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 of the Town's funds. The Supervisor is further required to prepare and file an annual financial report with OSC within the time limits prescribed by law.¹ In addition, the Supervisor must perform monthly bank reconciliations to ensure the timely identification and documentation of differences between the Town's cash balances and those reported by the bank. If the Supervisor assigns recordkeeping duties to a bookkeeper, she must provide sufficient oversight to ensure that the bookkeeper's records are reliable and up-to-date and that any journal entries have supporting documentation and supervisory approval.

The Town does not have complete, accurate and up-to-date accounting records because the Supervisor did not provide adequate oversight of the bookkeeper during our audit period or adequately segregate the duties of the bookkeeper and payroll clerk. Lack of oversight and errors in recording transactions caused the financial records to be misstated. As a result, the Supervisor could not provide the Board with sufficient interim financial reports and did not file the required annual financial report with OSC for 2012 and 2013 in a timely manner. Without complete, accurate and timely financial information, the Board could not properly monitor and manage Town operations.

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 recorded. To ensure that activities are recorded properly, control accounts for budgeted and actual revenues and expenditures should match detailed financial records. In addition, restricted cash for reserves should match fund balance restricted for reserves.

¹ General Municipal Law requires that the Supervisor file an annual financial report with OSC and the Town Clerk within 60 days from the close of the Town's fiscal year. 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.

Further, the amounts recorded as interfund receivables should agree with the amounts recorded as interfund payables, and interfund transfers to other funds should match interfund transfers from other funds. Finally, each account on the balance sheet at year-end should be reviewed to determine that the amount is supported by a detailed schedule that reconciles to the ending balance.

Accounting Records – New York State Town Law (Town Law) requires the Supervisor to keep a complete and accurate account of the receipt and disbursement of all moneys. All general ledgers, cash receipt and disbursement journals and subsidiary revenue and appropriation ledgers must be maintained in a complete, accurate and timely manner. The subsidiary revenue and appropriation ledgers must establish budgetary control at the level of detail contained in the original budget and as modified by the Board during the fiscal year. General ledger control accounts summarize the information in the subsidiary ledgers and must balance if reliable financial reports are to be produced. Periodically, a trial balance should be created.² The trial balance is primarily used to ensure that there are no unbalanced journal entries in the accounting system and is used as an aid in preparing financial reports.

The Supervisor did not maintain complete and accurate accounting records. From January 2011 through June 2014, we reviewed the trial balance and the budget-to-actual revenue and expenditure reports and determined that the budgetary and actual control accounts, interfund transactions, cash, reserves and fund balance were not properly recorded. These reports were inaccurate because the Supervisor relied on the bookkeeper to maintain the Town's financial records and reports. However, the bookkeeper does not have the training to record transactions that are beyond normal recurring transactions. While she generally recorded routine cash receipts and disbursements accurately, she had difficulty recording transactions, such as interfund transactions and funding and use of reserves, that required more training. Further, the Supervisor did not provide the bookkeeper with adequate training, guidance or oversight to assist her with maintaining accurate financial records and reports.

We compared the control accounts to the detail accounts for January 2011 through June 2014 and found discrepancies, as detailed below.

- Budget Accounts: Budgetary control accounts were not in balance with the amounts recorded in the subsidiary appropriation ledgers. For example, the 2011 highway budget

² The trial balance is a detailed accounting for assets, liabilities and fund balance accounts, and revenue, expenditure and budgetary control accounts that will show if all the debit account balances are equal to all the credit account balances.

control account on the trial balance for appropriations was \$1,081,451. This did not match the recorded appropriations on the detail of expenditure report, which were \$997,451 because a general journal entry for \$84,000 related to reserves was recorded in the control account.

- **Actual Revenues and Expenditures Control Accounts:** The control accounts for actual revenues and expenditures on the trial balance did not agree with the amounts recorded on the budget to actual reports in 2011 for general fund expenditures and highway fund revenues, 2012 for highway fund expenditures and 2013 for highway fund subsidiary ledgers. For example, the 2012 expenditure control account on the trial balance for the highway fund was less than actual expenditures on the detailed expenditure report by \$144,017. These discrepancies occurred because the bookkeeper recorded general journal entries for corrections and adjustments in the control account and cash disbursements at year-end were not included in the control account.
- **Interfund Transactions:** Interfund transactions should always be in balance between the funds providing the resources and those receiving the resources. The interfund receivables and payables – short-term financing between funds expected to be repaid within the year – were not in balance for each of the three years and, in some cases, had a balance that would not be normal for that account. For example, in 2012 for all funds, the receivables totaled \$23,324 while the payables were (\$8,976),³ a difference of \$32,300. Because the accounts are not reconciled and are out of balance, the amount of loans expected to be repaid within a year cannot be determined. Interfund transfers are transfers from one fund to another fund that are intended to be subsidies and not repaid. We also found unadjusted errors in this area. For example, the general fund transferred \$54,000 to the highway fund in 2013, while the highway fund showed a transfer in of \$145,114. The \$91,114 difference was related to journal entries being made to the wrong account to fix other errors.
- **Fund Balance:** The Supervisor told us that additional taxes generated from gas wells were intended to be used to fund various reserves in the general and highway funds for future capital needs. When the money was transferred from the

³ The normal balance for this account would be a credit. Instead, it had a debit balance, which is the reverse of its normal balance. This error should have been easily discovered.

operating fund's unrestricted cash account to the restricted cash account for the reserve, the corresponding restriction to fund balance did not occur. For example, when \$421,700 was funded in 2012 for the general and highway funds, restricted fund balance did not change. Without properly restricting that portion of fund balance set aside for reserves, the Board cannot determine the amount of unrestricted fund balance available for appropriation towards the ensuing year's taxes when developing the budget for the next year.

As a result of these inaccurate records and reports, the Board did not have reliable information on which it could base its financial decisions.

Cash Reconciliation – Town deposits that are either in bank accounts or invested in vehicles like certificates of deposit (CD) need to be monitored and controlled. Reconciliations between amounts recorded in the Town's financial records and information provided by the bank are key components of monitoring and controlling these assets.

A bank reconciliation is a schedule showing and explaining the differences between the cash reported on the bank statement and the cash per the records. The reconciliation is a method to determine that all the differences between the records and cash in the bank are accounted for. Records should indicate how much money the Town should have; bank accounts indicate how much money the Town actually has. The reconciled bank balance should always agree with the recorded cash balance.

The Supervisor uses a common interest-bearing bank account to record all revenues collected and then transfers funds as needed for operating expenses and payroll to a checking account. Excess funds not currently needed to meet operating expenditures are periodically transferred to CDs if the earnings from interest are more favorable. The bookkeeper has primary responsibility to either renew the CD when it matures or return the money to the common bank account. Cash assets of reserve funds are deposited either in separate savings accounts or CDs. The bookkeeper and payroll clerk are responsible for preparing bank reconciliations monthly, based on their duties. We reviewed the cash balance recorded on the books at year-end for fiscal years 2011 through 2013 to the reconciled bank statements and determined that differences existed because of the following:

- A CD totaling \$101,344 that matured in the general fund in January 2013 was erroneously recorded as real property tax revenue and was not corrected until May 2014, when we informed the Supervisor of the discrepancy.

- An incorrect journal entry for \$41,000 reversed a transfer to the highway fund reserve even though the money was actually transferred to the reserve bank account.
- A \$30,000 bank transfer to the general fund building reserve in February 2012 was not recorded in the books until June 30, 2013.
- The accounting records included a transfer of \$8,811 from the general fund park reserve in 2012 that was not made and remained uncorrected until June 30, 2013.
- An incorrect journal entry was made to reduce the highway fund reserve by \$5,645 for money never spent from the reserve.
- Interest totaling \$3,008 was accrued per the accounting records for CDs before it was earned in all three years.

We reviewed the June 30, 2014 bank reconciliation and found that the errors which we brought to the Supervisor's attention had been corrected so that the bank and book cash balances matched. However, without proper monitoring of cash, the risk for fraud increases. Although the Supervisor stated that she reviewed the bank reconciliations, we found no evidence that this actually occurred. Had she thoroughly compared the book cash to the cash from the bank reconciliation, she would have found these differences.

Of particular concern is the monitoring of CDs. Because the bank advice can span a period of years, allowing the bookkeeper to invest large amounts of excess funds without oversight exposes the Board to a large risk. The Supervisor, as custodian of the Town's money, can be designated by the Board to invest funds. This responsibility should not be designated to an employee.

Although the Supervisor kept a subsidiary record of investments as required by General Municipal Law, she did not reconcile the balance in the subsidiary record with the accounting records. As a result, we had to contact the bank twice during fieldwork to obtain reliable information regarding the status of the Town's CDs to determine if they existed or had matured. To ensure that CDs were accounted for, we reviewed all active CDs totaling \$850,000 during the audit period and found that all were accounted for as of June 30, 2014.

Journal Entries – Journal entries are made to record or correct transactions that are not otherwise recorded using the cash receipts/disbursements module in the accounting system. Appropriate controls

over journal entries should include supervisory approval and review before transactions are initiated and recorded. To determine that the journal entries are necessary and correct, they should be adequately supported and documented to explain the purpose of the entries. As a general rule, the bookkeeper should use the cash receipts module in the accounting system rather than journal entries to record receipts to maintain a clear audit trail, minimize errors and improve efficiency.

The Supervisor does not review or approve the journal entries recorded by the bookkeeper. The bookkeeper does not support or document the purpose of the entries. We found that the bookkeeper improperly recorded cash receipts by making general journal entries instead of using the detailed cash receipts journal. Generally, these journal entries were correct. However, the general journal entries to account for the funding and use of reserves and correcting journal entries were incorrect, which resulted in inaccurate accounting records. For example, we found that the increase to the general fund reserve in 2012 was \$28,000 higher than the amount approved in the adopted budget, primarily because the bookkeeper transferred an additional \$30,000 to the reserve (see previous bullets).

The bookkeeper also improperly prepared journal entries for the use of reserves for purchases that were authorized by the Board, which caused the actual reserve cash balances to differ from the Board's authorizations. For example, the general fund's park reserve cash balance was overstated by \$12,615 because the bookkeeper never recorded the Board's authorized transfer but, instead, paid for the purchases to improve the park with operating cash. Another example relates to the highway fund reserve, which was invested in CDs in the amount of \$200,000 in 2011 and \$250,000 in 2012. When the CDs matured, the bookkeeper deposited and recorded the money and accrued interest into the highway fund's savings account instead of the reserve accounts. Because the bookkeeper failed to properly designate these funds as restricted, almost half of the money was improperly used for operations. As a result, the available savings account balance of \$45,271 as of December 31, 2013 was insufficient to pay back the \$200,395 owed to the reserve. In addition, the bookkeeper made improper adjusting entries at the end of 2013 to reduce the highway fund reserve's recorded book balance by \$46,645. As a result of these improper journal entries, the December 31, 2013 book balance for reserves was \$247,040 less than it should have been.

Although the accounting records for regular recurring transactions for operating revenues and expenditures were generally adequate, improperly accounting for reserves severely distorts the financial information that the Board needs to manage the Town.

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.

Interim Reports – Town Law requires the Supervisor to provide a monthly report to the Board which provides a detailed accounting of moneys received and disbursed. To be more useful, these reports also should include adjusted cash balances and budget-to-actual results of operations. Detailed financial reports enhance the Board's ability to oversee financial activities and monitor the Town's budget.

The Board received a monthly report that included a trial balance, budget-to-actual report from the Supervisor and moneys received and disbursed. These reports were inaccurate because of the recording errors previously discussed. Due to the inaccurate cash and reserve balances, the Board was unaware of the Town's true financial position. For example, the Supervisor reported the highway fund's unassigned fund balance as of December 31, 2013 in the amount of \$330,656; however, the actual unassigned fund balance was zero since all available fund balance had been appropriated. Several Board members expressed concerns about their inability to properly budget because of the Supervisor's inaccurate reports. Without accurate information regarding the Town's correct financial position, the Board will not be able to develop a structurally balanced budget for 2015 or effectively manage the Town. Further, as accounts are expended, it is important for the Supervisor to advise the Board of budgetary accounts that may not be sufficient and propose budgetary adjustments as necessary.

Annual Report – The Supervisor is required to file the Town's annual financial report, also known as the annual update document (AUD), with OSC within 60 days following the close of the fiscal year, with the option of a 60-day extension, if requested. The AUD is an important document that allows the Board and the general public to assess the Town's financial operations and financial condition. Because the AUD is based on the accounting records, it is critical for the records to be accurate and current.

The Supervisor's bookkeeper filed the AUD for 2012 in a timely manner but was notified by OSC that the information did not balance. The cash reported in the funds did not match the cash reported on the schedule of cash. Although the bookkeeper, with the Supervisor's assistance, attempted corrections, assistance was needed from a certified public accountant (CPA) to make corrections and refile the report. The corrected 2012 report was filed in July 2014. Subsequent to our fieldwork completion, the Town filed its 2013 AUD with OSC in November 2014, after obtaining assistance from a CPA.

The Supervisor's failure to file AUDs in a timely manner with OSC is indicative of problems in the Town's financial recordkeeping and denies the Board and the public a primary fiscal tool to monitor the Town's financial affairs. Moreover, hiring a CPA to correct the series of accounting errors to get the books in order to file the AUDs cost the Town \$7,700.

Segregation of Duties

The Supervisor is responsible for the Town's day-to-day financial activities. To safeguard cash, financial duties must be segregated so that no individual controls most or all phases of a transaction. Where it may not be practical to segregate these key duties, the Supervisor must implement compensating controls. When the Supervisor assigns these duties to an appointed bookkeeper, the Supervisor is responsible for ensuring that no issues of incompatibility exist regarding the choice of bookkeeper and for providing adequate oversight over the duties performed by the bookkeeper.

The Supervisor's bookkeeper is responsible for all aspects of the accounting process. The bookkeeper deposits, records and transfers cash between bank accounts and prepares and prints checks for all disbursements except payroll. In addition, she prepares the bank reconciliations (except payroll) and the monthly Supervisor's report for the Board. Although the Supervisor stated that she reviews the bank reconciliations, given the variances caused by the entries bulleted above between book cash and reconciled bank cash, the review is not effective.

The payroll clerk processes the payroll, prints the checks, transfers sufficient cash from the general and highway checking accounts to the payroll account and reconciles the payroll bank account. The Supervisor certifies the payroll after she reviews it. In addition, the payroll clerk is the system administrator for the financial software. As such, he is designated as the person who has oversight and control of the system, which includes the ability to add new users, change users' passwords and access rights and modify or delete financial transactions. The payroll clerk also serves as the backup to the bookkeeper. With this ability, the payroll clerk is able to control and use all aspects of the financial software application, which creates the opportunity for the manipulation and concealment of transactions. When it is impractical to segregate incompatible duties, the Supervisor must provide oversight of the work being performed to mitigate the risk created by the incompatible duties.

We reviewed transfers totaling approximately \$2.9 million and disbursements totaling approximately \$2.2 million, and we reviewed

other records and reports.⁴ Although our testing did not find any significant exceptions with operating cash receipts and disbursements or payroll as recorded by the bookkeeper and payroll clerk, without properly segregating the bookkeeper's and payroll clerk's duties or providing adequate oversight, the Town has an increased risk that improper accounting errors and irregularities may occur and remain undetected and uncorrected, as was the case with the bookkeeper's records pertaining to balance sheet items.

After the completion of our fieldwork, the Supervisor told us that she established a mitigating control in which the payroll clerk and bookkeeper are now reconciling each other's bank accounts. While this should provide some mitigation, it will not substitute for a dramatic increase in oversight by the Supervisor.

Recommendations

The Supervisor should:

1. Provide the bookkeeper with necessary financial training so that she can adequately perform her duties.
2. Periodically review the bookkeeper's work to ensure that all financial activity is accounted for completely and accurately, monthly bank reconciliations match book cash balances and any discrepancies disclosed are promptly investigated and corrected.
3. Ensure that the bookkeeper records the appropriate adjusting journal entries necessary to correct the inaccuracies in the Town's accounting records. All general journal entries should be approved by the Supervisor.
4. Ensure that the bookkeeper maintains appropriate records to track reserve fund activity.
5. Provide the Board with accurate and complete monthly reports.
6. File the Town's annual financial report with OSC and the Clerk within 60 days after the close of the fiscal year, or 120 days after the close of the fiscal year if an extension is granted.
7. Ensure that the mitigating control regarding bank reconciliations is operating as intended.

⁴ See Appendix C, Audit Methodology and Standards, for details on our testing

The Board should:

8. Designate an employee who does not have access to the Town's cash assets as the system administrator for the financial software package.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

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

TOWN OF CATON

11161 HENDY HOLLOW ROAD – CORNING, NY 14830 – PHONE: 607-524-6303 – FAX: 607-524-6829
catontownhall@stny.rr.com

Katherine W. Hughes, Supervisor

February 27, 2015

Edward V. Grant, Jr. Chief Examiner,
Division of Local Government and School Accountability
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608

Dear Mr. Grant,

We have received your office's preliminary draft of findings in the audit of the Town of Caton. We have reviewed the report and are submitting this response.

In general, the audit has been a positive experience with an excellent opportunity for improved systems and procedures in our town. The audit team has been open and helpful in discussing the items found during the audit so that we can understand what changes would be beneficial. We have already implemented most of the recommendations detailed in the report, specifically:

1. Training for the bookkeeper: The Supervisor and the bookkeeper together have already attended the 2-day advanced accounting class sponsored by your office. The bookkeeper has also received individualized training on preparing our software system prior to year end closing. This training increased her knowledge about applying the Uniform System of Accounts correctly to our town's transactions, specifically interfund transactions and the year-end closing of reserve fund transactions. We will also engage an independent accountant to assist with non-standardized transactions; the year-end closing and Annual Update Document (AUD).
2. As Town Supervisor, I will compare the cash balances in the monthly supervisor's report (generated by our software) for agreement with the reconciled bank balances. In addition, a checklist of monthly cross-checks has been created to ensure improved accuracy in all journals and accounts.
3. As Town Supervisor, I will periodically review the general journal entries in each fund. Our bookkeeper and our software vendor have resolved the set-up problem with our cash receipts journal. With this improvement, the number of journal entries in each fund will decrease significantly.

4. A separate general ledger cash account has been established for each reserve. These general ledger cash accounts will be compared to the corresponding reconciled bank balances each month prior to the month end closing. The restricted fund balances for each of our reserves will be adjusted at year end prior to the closing of our accounting software. For all practical purposes, our restricted cash balances (i.e. reserved cash) is equivalent to restricted fund balance even prior to year end closing.
5. The monthly supervisor's report generated by our software system is a report of beginning cash balances, increases and decreases to cash during each month and ending cash balances. In addition to this cash report, I will provide the Board with budget to actual reports for the general and highway funds. These reports will be in the format available from our canned software system.
6. The Town's financial system and timeliness of our annual financial report has improved considerably as evidenced by the timely filing of our 2014 AUD on 2/25/15.
7. The payroll clerk is promptly reconciling all general, highway and light district bank accounts and the bookkeeper is reconciling the trust and agency checking account thereby providing segregation of duties between the recording of transactions and the reconciling of bank accounts. As discussed in response item #2, I will be reviewing all bank reconciliations each month.
8. The designation of a system administrator for the accounting and payroll software system is under review at this time.

We do have a few items we wish to have clarified in the report for the sake of complete disclosure and accuracy to the taxpayers:

1. The draft report indicates that because of the errors in the reserve accounts, the board "cannot determine the amount of the unrestricted fund balance available" while developing 2015 budget. I think it is fair to point out that your audit period ended on July 31, 2014 and did not include the preparation of the 2015 budget. If the 2015 budget or our process had been in the examination, you would see that we did indeed prepare a structurally balanced budget. During the budget meetings for 2015, I provided a spreadsheet showing the estimated fund balance at year end for the board. While we agree that the corrections to the books were necessary, we disagree that the board was without direction on the amount of unrestricted fund balance at budget time. By the time that 2015 budget was adopted, all back AUDs had been filed and our accounting records had been corrected and brought up to date. Your conclusion about the lack of sufficiently accurate information to prepare a 2015 structurally balanced budget is incorrect. We request that this commentary be removed from the final report.
2. Highway savings "insufficient to pay back reserves": When a reserve CD was deposited into unrestricted savings instead of returning the funds to a restricted account, we feel it is important to note that the savings were depleted due to the failure to transfer the monies from the General Fund to the Highway Fund, as intended. The public should know that the monies always remained in the bank accounts, and needed to be transferred to the proper fund. Once that transfer was properly completed, the reserve fund was returned to the proper balance. No additional levy was incurred nor missing funds determined.
3. Hiring of CPA cost to town: The existing bookkeeping system was below the standard necessary to prevent inaccuracies. During the audit process we have looked at the areas of concern and

See
Note 1
Page 20

See
Note 2
Page 20

See
Note 3
Page 20

addressed them. One of these improvements is the engagement of a CPA to assist with training, accounting assistance (when necessary) and the preparation of the AUD. This hybrid resourcing of a local bookkeeper and a consulting CPA is a permanent change and will allow our town to achieve an ongoing high level of accuracy and timeliness while maintaining cost controls in our small town. The report implies that this is a cost burden to the town resulting from the problems found in this audit. On the contrary, we feel this is a positive change to keep up with accounting practices while containing costs and we should have done it long ago. A review of total bookkeeping costs in other towns indicates that even with the hiring of a CPA our costs are within the range of costs paid by other towns in the southern tier area.

4. Your comment entitled “Budget Accounts” indicates that in 2013, “budget accounts were not entered into the general fund control account at all. “ This statement is inaccurate. We will provide copies of those controls accounts. We request that this commentary be removed from the report.

See
Note 4
Page 20

We are pleased to present this response and again commend the audit team for providing our town with a tremendous onsite educational opportunity during the course of the audit.

Sincerely,

Katherine W. Hughes
Supervisor, Town of Caton

Cc: Town Board

APPENDIX B

OSC COMMENTS ON THE TOWN OFFICIAL'S RESPONSE

Note 1

During our audit, we discussed with Board members their concerns regarding the inaccuracy of the reports they received and their ability to budget for 2015. We advised Board members that inaccurate information could impact the development of a structurally balanced budget for 2015. We commend Town officials for taking our suggestions to correct the accounting records prior to developing the 2015 budget.

Note 2

The transfer of money to increase the highway fund reserves to their proper balance occurred after fieldwork was completed. We have not audited this statement.

Note 3

As Town officials stated in their response, the existing bookkeeping system was below the standard necessary to prevent errors. Due to the bookkeeper's inability to correct accounting errors, another individual had to be retained to correct them.

Note 4

We removed the statement regarding the 2013 budget amounts after reviewing the information Town officials provided subsequent to our exit discussion.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To focus our audit on those areas most at risk, we performed an initial assessment of the following areas: financial oversight, cash receipts and disbursements, payroll and personal services. During the initial assessment, we interviewed appropriate Town officials, performed limited testing of transactions and reviewed pertinent documents, such as Board minutes, 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 fraud, theft or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas at most risk. We selected the Supervisor's records and reports for further audit testing.

To accomplish our objective, we interviewed appropriate Town officials and employees, tested selected records and examined pertinent documents for the Supervisor for the period January 1, 2011 through July 31, 2014. Our audit included the following steps:

- We interviewed the Supervisor, bookkeeper and payroll clerk to gain an understanding of the accounting records and document why the 2013 annual financial reports had not been submitted to OSC.
- We reviewed the Town's computerized financial records (e.g., trial balances and journal entries) and compared them to transactions on bank statements to determine the reasonableness of recorded transactions.
- We compared Board approved disbursements totaling \$1,654,207 for the general and highway funds for 2012 and 2013 to abstracts paid. We also compared disbursements per the abstracts and payroll records (\$552,396) to disbursements recorded on the Supervisor's report and prepared a cash proof to determine if activity for disbursements in the bank match disbursements recorded and authorized.
- We traced all transfers totaling \$2,867,185 between checking, savings and CDs for January 1, 2011 through December 31, 2013.
- We compared cash balances on the reconciled bank statements to cash reported on the Supervisor's report and trial balance for 2012 and 2013. We also compared the reconciled bank balance to the Board minutes and AUD.
- We calculated the reserve balance based on funded increases and Board-authorized purchases for the scope period.
- We compared the interfund receivables/payables and interfund revenues/expenditures as of December 31, 2011 through 2013.
- We calculated the 2013 revenues, expenditures and fund balance based on cash activity for 2013.

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 D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313