



Town of Cayuta

Board Oversight and Cash Receipts and Disbursements

Report of Examination

Period Covered:

January 1, 2012 — December 10, 2014

2015M-6



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 Cayuta, entitled Board Oversight and Cash Receipts and 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 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 Cayuta is located in Schuyler County and had a population of 556 as of the 2010 census. The Town provides various services to its residents including highway maintenance and improvements, snow removal and general government support. The Town's budgeted appropriations for all funds were \$374,766 for 2014 and \$357,927 for 2015, which were primarily funded by real property taxes, sales tax and State aid.

The five-member Town Board (Board) is the legislative body responsible for the general management and control of the Town's financial and operational affairs. The Town Supervisor (Supervisor) is the Town's chief executive officer and chief fiscal officer. The Supervisor, who is a Board member, has the overall responsibility for receiving Town moneys, maintaining the accounting records and preparing financial reports. To assist the Supervisor in his accounting duties, the Board annually appoints a bookkeeper. The bookkeeper is also the Town's budget officer¹ and is responsible for compiling the initial budget estimates and producing the tentative budget. Other officials involved in collecting and disbursing Town moneys are an elected Town Clerk (Clerk) who also serves as the Town Tax Collector, the Code Enforcement Officer and the Town Justice.

Objectives

The objectives of our audit were to review the Board's oversight and the Town's cash receipts and disbursements processes for the period January 1, 2012 through December 10, 2014. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of the Town's financial operations?
- Did Town officials accurately record and report cash receipts and disbursements?

Audit Results

The Board must improve its oversight of Town operations. Since January 1, 2012, the Town has experienced significant turnover and administrative reorganization. Specifically, the Town has had two Supervisors, two bookkeepers and two Clerks during this time. The Board failed to provide oversight and guidance to key staff during this period of high turnover. As a result, many of the Town's financial records and reports were inaccurate and incomplete, and errors and irregularities occurred and went undetected and uncorrected.

¹ In 2012, the Town Clerk was also the budget officer.

During fiscal years 2012 through 2014, the Board relied on the Supervisor and budget officer to prepare the Town's budgets. The 2012 through 2014 Board-adopted budgets planned for operating deficits that were never realized because they included inaccurate estimates of revenues and appropriations to generate operating surpluses so that the Town could purchase equipment and make capital improvements. However, a more transparent way of planning for such items would be to establish reserve funds and include provisions in the budget for their funding. As a result, in each of the fiscal years 2012 through 2014, the general fund had available fund balance that was between 62 and 71 percent of the ensuing year's budget and the highway fund had available fund balance that was between 21 and 53 percent of the ensuing year's budget. The Board also did not audit the books and records of any of the Town officers and employees that handled cash. Had the Board conducted such an audit, it would have identified the errors and irregularities that we found during our audit.

The Board's failure to adopt cash receipts and disbursements policies and procedures, coupled with a lack of segregation of duties and oversight, significantly increased the risk of errors, fraud and theft of Town assets occurring and going undetected. The former Clerk did not routinely issue duplicate receipts for every transaction where no evidence of receipt was available, record daily cash receipts properly, or make deposits intact.² As a result, we identified a cash shortage of \$285, of which the former Clerk – through substitution or theft – took \$209 in cash. In addition, we found the former Clerk did not deposit tax receipts in a timely manner, and both Clerks did not remit tax payments to the Supervisor in a timely manner.

We also found that neither Code Enforcement Officer issued receipts for collections nor maintained records for all issued building permits. In addition, the Code Enforcement Officers did not collect all fees as required. Finally, the Justice did not retain copies of receipts issued for court-related activities, which increases the risk that moneys could be received and not be deposited and recorded accurately.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as indicated in Appendix A, Town officials generally agreed with our findings. Our comments on issues Town officials raised in their response are included in Appendix B.

² Moneys deposited in the same amount and form (cash, check or money order) in which they were received

Introduction

Background

The Town of Cayuta is located in Schuyler County and had a population of 556 as of the 2010 census. The Town provides various services to its residents including highway maintenance and improvements, snow removal and general government support. The Town's budgeted appropriations for all funds were \$374,766 for 2014 and \$357,927 for 2015, which were primarily funded by real property taxes, sales tax and State aid.

The five-member Town Board (Board) is the legislative body responsible for the general management and control of the Town's financial and operational affairs. The Town Supervisor (Supervisor) is the Town's chief executive officer and chief fiscal officer. The Supervisor, who is a Board member, has the overall responsibility for receiving Town moneys, maintaining the accounting records and preparing financial reports. To assist the Supervisor in his accounting duties, the Board annually appoints a bookkeeper. The bookkeeper is also the Town's budget officer³ and is responsible for compiling the initial budget estimates and producing the tentative budget. The entire Board is responsible for adopting and monitoring the budget and ensuring the Town's sound financial position. In addition, the Board is primarily responsible for the effective and proper functioning of the Town; the Supervisor and departments share this responsibility.

An elected Town Clerk (Clerk), who also serves as the Town Tax Collector, is responsible for collecting moneys for conservation, dog and marriage licenses; birth and death certificates; fees for certified copies; landfill tickets and real property taxes. The Clerk must properly record all moneys received and remit these moneys to the appropriate entities, including the Supervisor. The Tax Collector is authorized and directed by the tax warrant to collect the taxes on the tax roll, impose penalties on late payments, and accurately record, deposit, and remit paid taxes to the Supervisor and County in a timely manner. During our audit period, each Tax Collector was responsible for collecting approximately \$500,000 annually.

The Code Enforcement Officer is appointed by the Board and is responsible for issuing building permits, performing fire inspections, receiving applicable fees and turning over the moneys to the Clerk. The Town has one elected Justice who is responsible for hearing certain types of civil and criminal cases and adjudicating misdemeanors, minor violations and traffic infractions. The Justice is responsible for imposing, collecting, depositing and remitting fines, fees and bail

³ In 2012 the Town Clerk was also the budget officer.

money. The Board annually appoints a court clerk to assist the Justice in his duties.

Over the past three years, the Town has experienced significant turnover and administrative reorganization. Specifically, the Town has had two Supervisors, two bookkeepers and two Clerks since January 1, 2012.

Objectives

The objectives of our audit were to review the Board's oversight and the Town's cash receipts and disbursements processes. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of the Town's financial operations?
- Did Town officials accurately record and report cash receipts and disbursements?

Scope and Methodology

We examined the Board's oversight of Town assets and the Town's various cash receipts and disbursements processes for the period January 1, 2012 through December 10, 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 are included in Appendix C of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as indicated in Appendix A, Town officials generally agreed with our findings. Our comments on issues Town officials raised in their response are included in Appendix B.

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 New York State 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.

Board Oversight

The Board is responsible for overseeing the Town's assets and ensuring that adequate internal controls are in place to safeguard these assets. The Board can fulfill this responsibility, in part, by establishing and enforcing policies and procedures required by law and sound business practice for financial operations and information technology. Board members are responsible for adopting structurally balanced budgets for all of the Town's operating funds that provide for sufficient recurring revenues to finance recurring expenditures. In addition, the Board is required to approve the pay rates of all Town officials and employees, as well as the benefits provided to them. Further, the Board must annually audit the books and records of those officers and employees that receive or disburse Town funds.

The Board has not provided adequate oversight to safeguard Town assets because the Board did not adopt, review, update or enforce adequate financial policies to ensure Town resources were protected. In fiscal years 2012 through 2014, the Board adopted budgets with inaccurate revenue and appropriation estimates to generate operating surpluses so that the Town could purchase equipment and make capital improvements. However, a more transparent way of planning for such items would be to establish reserve funds and include provisions in the budget for their funding. As a result, in each of these three fiscal years, the general fund had available fund balance that was between 62 and 71 percent of the ensuing year's budget and the highway fund had available fund balance that was between 21 and 53 percent of the ensuing year's budget. The Board also did not audit the books and records of any of the Town officers and employees that handled cash. Had the Board conducted such an audit, it would have identified the errors and irregularities that we found during our audit. (See Cash receipts and Disbursements section).

Budgeting Practices

New York State Town Law (Town Law) provides the framework for the adoption of the Town's budget, and it is important that the Board adopt policies and procedures that provide detailed guidance for preparing and monitoring the annual budget, including the level of surplus funds to be maintained, as well as the funding and use of reserve funds. The Board may retain a reasonable portion of fund balance to be used as a funding source in the event of unforeseen circumstances and cash flow in the ensuing year. The Board may then appropriate a portion of fund balance as a revenue source in the ensuing year's budget to reduce the tax levy. If the Board follows these practices, it will raise only the necessary amounts of real property taxes.

The Board also should develop a multiyear plan identifying its future needs for capital related costs and the means for financing them (i.e., reserves, current appropriations or debt). Once estimates and plans are established, the Board should establish reserve funds if the financing plans call for accumulating funds for acquisitions. The Board should then provide an appropriation in each year's budget for the amount of money it intends to transfer to the reserves. These transparent budget practices will allow the Board to readily identify when its future costs will be adequately funded.

The Board did not adopt policies and procedures to determine the appropriate levels of fund balance to retain for unforeseen occurrences or cash flow issues and to appropriate as a funding source. Town officials had not developed a comprehensive long-term financial plan to identify, prioritize and strategically address future financial needs, such as equipment purchases. Without a formalized budget process and financial plans, the Board repeatedly adopted unrealistic budgets for the general and highway funds, which led to the Town maintaining financial resources in excess of the Town's current operating needs.

The Board relied on the Supervisor⁴ and budget officer⁵ to develop the Town's budgets during our audit period. The adopted general fund budgets underestimated revenues by \$104,514 and overestimated appropriations by \$47,362 in total over the last three years. The adopted highway fund budgets overestimated both revenues by \$81,441 and appropriations by \$184,917 in total during this same time. Officials informed us they intended to accumulate moneys in order to finance capital expenditures. The desire to have funds on hand to finance future equipment and repair costs is understandable. However, the appropriate and more transparent way to do this would be to create capital reserves for these purposes and include a provision in the budget for their funding. Due to the operating surpluses each year, fund balance in the general and highway funds has remained at a high percentage of the ensuing year's budget, as detailed in Figure 1.

⁴ The Town had two Supervisors during our audit period: the former Supervisor served from January 1, 2012 through December 31, 2013 and the current Supervisor started on January 1, 2014. The current Supervisor also held this position from January 1, 2010 through December 31, 2011.

⁵ The Town had three budget officers during our audit period: the current Clerk served as budget officer in fiscal year 2012 and the former Supervisor's bookkeeper served as budget officer in fiscal year 2013. The current budget officer is the current Supervisor's bookkeeper and was appointed in fiscal year 2014.

Figure 1: Fund Balance by Fund

General Fund			
	2012	2013	2014 ^a
Total Fund Balance	\$140,305	\$202,843	\$167,397
Less: Reserves	\$0	\$20,000	\$20,028
Less: Fund Balance Appropriated to Finance Next Year's Operations	\$6,000	\$74,921	\$24,000
Unrestricted, Unappropriated Fund Balance	\$134,305	\$107,922	\$123,369
Next Year's Budgeted Appropriations	\$194,067	\$175,396	\$172,809
Unrestricted, Unappropriated Fund Balance as a Percentage of Next Year's Budgeted Appropriations	69%	62%	71%
Highway Fund			
	2012	2013	2014 ^a
Total Fund Balance	\$143,939	\$113,048	\$116,363
Less: Reserves	\$12,441	\$42,633	\$37,811
Less: Fund Balance Appropriated to Finance Next Year's Operations	\$44,700	\$34,111	\$10,000
Unrestricted, Unappropriated Fund Balance	\$86,798	\$36,304	\$68,552
Next Year's Budgeted Appropriations	\$163,149	\$170,554	\$155,722
Unrestricted, Unappropriated Fund Balance as a Percentage of Next Year's Budgeted Appropriations	53%	21%	44%
^a Subsequent to field work, we received unaudited year-end figures			

We reviewed the general and highway funds' adopted 2015 budgets⁶ and determined that both budgets contained more realistic estimates of revenues and expenditures. In addition, both budgets included the appropriation of fund balance to finance operations. However, even with the appropriation of fund balance, the unrestricted unassigned fund balance at December 31, 2014 for the general and highway funds are \$123,369 and \$68,552, respectively which are 71 and 44 percent of the 2015 budget appropriations. Therefore, it is likely that each fund will continue to retain fund balance in excess of its operating needs. The Board did not establish reserves in either fund to segregate excess fund balance for capital purposes.

Annual Audit

Town Law requires the Board, by January 20th of each year, to conduct or obtain an annual audit of the records and reports of any Town officer or employee who received or disbursed moneys on behalf of the Town in the preceding year. The purpose of this annual accounting is to provide assurance that public moneys are handled properly (i.e., deposited in a timely manner, accurately recorded and

⁶ Prepared by the current budget officer (current Supervisor's bookkeeper)

accounted for), to identify conditions that need improvement, and to provide oversight of the Town's financial operations. An effective annual accounting also provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Town's fiscal procedures. Indications that an audit was performed must be entered in the Board's minutes. An annual audit is especially important when there is a limited segregation of duties.

During our audit period, the Board did not audit, or contract for an audit of, the financial books and records of all officers and employees who received or disbursed moneys on behalf of the Town. Specifically, the Board did not audit the Clerk, Code Enforcement Officer, Supervisor, Justice or Tax Collector. Without an annual audit, the Board failed to detect and correct errors, irregularities or fraudulent activity in a timely manner. (See *Cash Receipts and Disbursements* section of this report).

Recommendations

The Board should:

1. Adopt, review, update and enforce written policies and procedures required by law and sound business practices for Town operations.⁷
2. Establish reserves and include a provision in the budget for their funding, instead of inflating budget estimates to incur an operating surplus.
3. Reduce the surplus fund balance in the general and highway funds. If the Board believes it is necessary to accumulate money for future planned purposes, it should formally establish reserve funds. Other uses for surplus funds include financing one-time expenditures and reducing property taxes.
4. Annually audit or contract for an audit of the books and records of all officials and employees that receive and disburse Town funds.⁸

⁷ Guidance is available in the OSC publication entitled *Fiscal Oversight Responsibilities of the Governing Board* www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf

⁸ Ibid.

Cash Receipts and Disbursements

The Board is responsible for ensuring that all money due the Town is collected, recorded and deposited, and that all money disbursed is for proper Town purposes. It is important for the Board to establish policies and procedures that segregate the duties of processing cash receipts and disbursements. The Supervisor, Clerk, Tax Collector, Code Enforcement Officer and Justice are responsible for collecting moneys owed to the Town and timely remitting those collections to the proper recipient.

The absence of Board-adopted cash receipts and disbursements policies and procedures, coupled with a lack of segregation of duties and oversight, significantly increased the risk of errors, fraud and theft of Town assets occurring and going undetected. The former Clerk did not routinely issue duplicate receipts for every transaction where no evidence of receipt was available, record daily cash receipts properly, or make deposits intact.⁹ As a result, we identified a cash shortage of \$285, of which the former Clerk – through substitution or theft – took \$209 in cash. In addition, we found the former Clerk did not deposit tax receipts in a timely manner, and both Clerks did not remit tax payments to the Supervisor in a timely manner. We found the former Supervisor's records and reports were inaccurate because his bookkeeper did not properly record cash receipts and disbursements, and made adjusting journal entries that exacerbated the problem instead of correcting the errors. We also found that neither Code Enforcement Officer issued receipts for collections nor maintained records for all issued building permits. In addition, the Code Enforcement Officers did not collect all fees as required. Finally, we found the Justice did not retain copies of receipts issued for court-related activities, which increases the risk that moneys could be received and not be deposited and recorded accurately.

Town Clerk

The Clerk is responsible for receiving, recording, depositing, disbursing and reporting all moneys collected for various fees – such as real property taxes and penalties; sporting, dog and marriage licenses; building permits; and death certificates – in an accurate and timely manner. This requires maintaining complete and accurate accounting records, ensuring that moneys received are safeguarded, promptly depositing moneys received into the Clerk's bank accounts and disbursing those moneys to the appropriate parties. Specifically, the Clerk is required to issue duplicate receipts to payees, record the form of payment (i.e., cash or check) for every transaction where no other

⁹ Moneys deposited in the same amount and form (cash, check or money order) in which they were received

evidence of receipt is available, and deposit all moneys collected intact so that specific cash receipts can be identified through the accounting records to the bank statements. Tax collections must be deposited within 24 hours of receipt and the other fees collected by her office must be deposited within three business days when they cumulatively amount to \$250. However, even when receipts do not exceed \$250, it is a good business practice to deposit them within a reasonable amount of time to protect cash and allow for timely remittance to the applicable parties.

Clerk Fees – We reviewed all 313 cash receipts totaling \$10,214 and 104 disbursements totaling \$10,088 processed by the two Clerks¹⁰ from January 1, 2012 through June 6, 2014. We found that the current Clerk properly recorded and reported cash receipts and disbursements, and issued duplicate receipts when necessary. However, although the former Clerk properly recorded disbursements, she did not routinely issue a duplicate receipt for every transaction where no evidence of receipt was available, or record daily cash receipts in her check register. The former Clerk maintained evidence of transactions for marriage and dog licenses, but only occasionally issued receipts for other Town-related transactions. Further, she did not reconcile her bank accounts with her accounting records or reconcile the amounts she collected with what was owed to various parties. Even more concerning is that the former Clerk did not properly record and report all receipts, and did not make deposits timely and intact.

Because of the former Clerk’s poor accounting records, we obtained bank deposit compositions¹¹ for all deposits listed on the two Clerks’ banks statements for the period January 1, 2012 through June 6, 2014 to perform an accountability analysis, which identified a cash shortage of \$285 for the former Clerk and no issues for the current Clerk. Specifically, we found the former Clerk – through substitution or theft – took \$209 in cash. For example, the former Clerk did not record or report 10 transactions totaling \$267 of which two totaling \$110 were not deposited. The former Clerk also did not deposit seven other transactions totaling \$99. Furthermore, the former Clerk took \$170 in cash from a transaction and substituted it with her personal check. As a result, fraud and misuse of Town assets occurred and went undetected.

Tax Collection Activity – We reviewed tax deposits totaling \$1,195,244 and compared them to recorded receipts in the tax program totaling \$1,254,702¹² during our audit period. The current Clerk maintained

¹⁰ The Town had two Clerks during our audit period: the former Clerk served from January 1, 2012 through January 31, 2014 and the current Clerk started on February 3, 2014. Both Clerks also served as Tax Collector.

¹¹ A deposit composition is a copy of all the payments that make up a deposit which shows the total cash deposited and provides a copy of each individual check included in the deposit.

¹² The recorded receipts included payments received by the County and did not include payments in lieu of taxes deposited into the Tax Collector’s bank account.

adequate records to support collections of real property taxes, penalties and interest, and deposited collections in a timely manner. The former Clerk properly recorded tax collections, with the exception of one material error. She incorrectly recorded a payment from a mortgage company in the amount of \$13.95 as payment in full for \$1,395. In addition, although the tax collections were deposited intact, the deposits were not timely. For example, over half of the 2013 tax receipts were held between two and 20 days before depositing them.

In addition, neither Clerk remitted taxes to the Supervisor on a weekly basis because they were unaware of this requirement. Instead, the Clerks first paid the County for all installment taxpayers¹³ and then waited until they had accumulated the Town's portion of the tax warrant, which they paid on February 21, 2012, February 5, 2013 and February 21, 2014. In addition, we found that the former Clerk overpaid the Supervisor in the years 2012 and 2013, which resulted in the Town owing the County \$3,706.¹⁴

Supervisor

The Supervisor, as the Town's chief financial officer, is responsible for collecting, receiving and having custody of all moneys belonging or due to the Town. All moneys the Town receives must be recorded and deposited as soon as possible, in accordance with statute.¹⁵ In addition, the Supervisor, with the bookkeeper's assistance, is responsible for maintaining accurate and up-to-date accounting records and preparing accurate financial reports to provide the Board and public with information needed to monitor the Town's financial affairs.

The Town had two Supervisors during our audit period: the former Supervisor served January 1, 2012 through December 31, 2013 and the current Supervisor started January 1, 2014. We reviewed all 26 receipts totaling \$352,759 and all 158 disbursements totaling \$254,542 that were listed on six bank statements to determine if they were recorded and reported properly. We found the current Supervisor's bookkeeper generally recorded receipts and disbursements properly and prepared accurate and timely monthly financial reports. However, the former Supervisor's records and reports were inaccurate because his bookkeeper did not properly record receipts and made adjusting journal entries that exacerbated the problem instead of correcting her

¹³ Schuyler County offers its taxpayers an installment option, which requires the taxpayer to pay 50 percent of their taxes plus a 1 percent service charge payable to the Town by January 31. The service charge paid to the Town must be remitted to the County. The remaining 50 percent is payable to the County by July 1.

¹⁴ She overpaid the Supervisor \$497 and \$3,209 in 2012 and 2013, respectively.

¹⁵ Town Law requires that money received be deposited in a Town bank account within 10 days. However, daily deposits should be made if material amounts have been received.

errors. As a result, she could not reconcile the Town's bank accounts to the financial records and the monthly reports she prepared for the former Supervisor were inaccurate. The former Supervisor stated that he was aware that the monthly reports were inaccurate, which was why he rarely submitted a monthly report to the Board. Without monthly financial reports, the Board was unable to effectively manage the Town's finances.

When comparing the former Supervisor's records to the annual update documents prepared by the former bookkeeper, we found the recorded revenues and expenditures did not match the report in total. This was because the former bookkeeper netted revenues against their corresponding expenditures. For example, revenues from the Consolidated Local Street and Highway Improvement Program totaling approximately \$37,000 were closed to an expenditure in both 2012 and 2013, even though the adopted budgets included estimates for this revenue source. These inaccurate reports misrepresented the Town's actual revenues and expenditures to the Board, Office of the State Comptroller and the public.

In addition to these recording and reporting errors, we found the former Supervisor failed to ensure that individuals receiving health insurance paid their portion of the premiums. During 2012 and 2013, four individuals (current Supervisor, current Clerk, Justice¹⁶ and former Machine Equipment Operator (MEO)) received health insurance benefits from the Town. The Supervisor, Clerk and Justice were responsible for the entire payment of the plans and the former MEO was required to contribute \$80 a pay period toward the cost. We found the current Supervisor and Clerk reimbursed the Town in full for their monthly premiums, but the Justice did not. The Justice's health insurance premiums for this period totaled \$6,060, but he only paid \$4,746. In addition, the bookkeeper failed to deduct the \$80 from the former MEO's paycheck in April 2012. Therefore, the Justice owes the Town \$1,314 and the former MEO owes \$80.

Code Enforcement Officer

The Code Enforcement Officer (CEO) is responsible for issuing building permits and collecting the associated fees based on the Town's Building Code Enforcement fee schedule. The CEO must submit the fees to the Clerk at least monthly based on the Town's rules and regulations and information sheet for building permits.¹⁷ To ensure that cash is properly accounted for, all moneys received by the CEO should be documented by the issuance of a duplicate pre-numbered cash receipt. Furthermore, pre-numbered building permits

¹⁶ The Justice resigned on October 13, 2014.

¹⁷ The Town's information sheet for building permits provides that the building permit fee will be noted on the application and sets the fee at \$3 for every \$1,000 of construction or repair, and a minimum of \$10.

should be issued to ensure all building permits are accounted for. The Town had two CEOs during our audit period: the former CEO served during 2012 and the current CEO started on January 1, 2013.

Neither CEO issued receipts for collections nor maintained adequate records for issued building permits. Although the Town's rules and regulations state that the CEO is responsible for collecting the applicable fees, the Clerks also collected fees on occasion. After the Clerk accepted a payment, she would notify the CEO, who would then provide her with a copy of the permit. Because of this flawed collection process, we traced building permits maintained by the CEOs to the Clerks' records to determine if all permits and their related fees were accounted for and found discrepancies. Specifically, the former CEO's records indicated that he issued four building permits in 2012. However, the Clerk collected fees for seven building permits in 2012. It also appears that the correct fees were not charged for at least two permits. The current CEO's records indicated that he issued 23 building permits from January 1, 2013 through August 18, 2014. However, the Clerk's records indicate that she collected fees for two additional building permits that were not in the current CEO's records. It also appears that the correct fees were not charged for at least six building permits. The total incorrect fees charged for these eight permits resulted in a net loss of approximately \$343 in revenue.¹⁸ For example, a company paid \$54 instead of the \$540 fee that was required.

Justice

The Justice is responsible for adjudicating cases brought before him and for the accounting and reporting of all related Court financial activities. These responsibilities include depositing all moneys collected in a timely manner; issuing appropriate receipts; maintaining complete, accurate and timely accounting records; reconciling Court collections to corresponding liabilities; and reporting Court transactions to the Justice Court Fund (JCF) and the New York State Department of Motor Vehicles (DMV), when applicable.

We found that the Justice did not retain copies of the duplicate receipts that were issued for court-related financial activities. According to the Justice, he does not retain paper copies of the receipts because receipts are processed and maintained in the software used by the Court. We obtained a backup of the Justice's automated data to compare it to the records maintained by JCF and DMV, as well as the bank statements and case files, if applicable (see Appendix C). We reviewed 18 deposits totaling \$17,314 and determined that they were made intact and in a timely manner. However, we identified

¹⁸ This figure is based on available information. Town officials did not retain all applications for all building permits in which fees were collected. Therefore, we were unable to recalculate the fees for all collections.

11 missing receipt numbers; the Justice provided a reasonable explanation for five of these receipts but could not explain the reason for the remaining six missing receipts. As a result, Town officials cannot ensure that the Justice deposited all cash and checks received and recorded all amounts received completely and accurately. We also found other minor reporting errors that we discussed with the court clerk because the Justice resigned on October 13, 2014.

Recommendations

The Clerk should:

5. Adopt controls to ensure the following:
 - Collections are deposited in a timely manner and intact.
 - Monthly bank reconciliations and accountabilities are prepared.
 - Complete and accurate accounting records are maintained.
 - Each tax payment received is recorded accurately and supported.
 - Collections are deposited and remitted to the Supervisor in accordance with statute.

The Supervisor should:

6. Develop procedures that adequately establish controls to safeguard cash receipts.
7. Continue to maintain accurate and up-to-date accounting records and prepare accurate financial reports to provide the Board and public with information needed to monitor the Town's financial affairs.
8. Pay the County the amount he was overpaid by the former Clerk.
9. Collect outstanding health insurance premiums from the former MEO and Justice.

The Code Enforcement Officer should:

10. Issue duplicate pre-numbered receipts for all building permits.

The Justice should:

11. Issue duplicate receipts where no other evidence of receipts is available and retain copies of the duplicate receipts.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

DAVID M. REED

Town of Cayuta
Supervisor
6360 State Rt 224 Unit 1
Cayuta NY 14824

Phone 607-594-2507
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Home 607-796-9558

RE: Response - Town of Cayuta Draft Report

July 1, 2015

Office of State Comptroller
The Powers Building
16 W. Main Street, Suite 522
Rochester NY 14614

Dear Madam or Sir,

This is David Reed, Town Supervisor for the Town of Cayuta, I am responding to the State Comptrollers Audit of the Town of Cayuta.

We recently got a preliminary draft of this report and I went through it with [REDACTED] and [REDACTED] not a real problem with this except, this report is incomplete.

A couple of major points, there was an issue regarding health insurance where we had a policy in place and was enacted at the Organizational meeting, stating what the policy was for the payment of health insurance. The Supervisor, Mr. Arnold, along with the Judge, Mr. Johnson, by a Lawyers terms, who I consulted, who knows Town law, stated they committed fraud and the conspiracy to commit fraud and misappropriations of funds, now, the biggest problem I have is someone in your office decided to not even mention this anywhere in the State Comptrollers report.

See
Note 1
Page 20

If Supervisors, such as myself and other people, do not have to abide by policies, regulations and resolutions that are passed, then what is the purpose of this audit to begin with because anything that you found wrong which was basically, procedural stuff, policies that were not in place, if you are not going to abide by these policies people can commit fraud, conspiracy to commit fraud and misappropriations of funds by violating these policies and you do not even put them in you report. Then I have a problem with this so why would I even take and try to correct anything that you tell me, there is no ramifications from my actions. What these two people did was criminal, not only did they do this and they tried to cover it up with a resolution half way through the year, of absolving Mr. Johnson of any future payment of money. And, that the auditors found out in the end that Mr. Johnson still owed approximately \$1300.00 and this was never paid. I have a problem with people committing fraud against my Town, whether it is for one dollar, a thousand dollars or ten thousand dollars, or what ever the amount. These people in this report should

See
Note 2
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either be exonerated of any wrong doing or this should be at least mentioned in the report that this happened, so I can take this information to the District Attorney to allow him to prosecute these people.

Next thing, is I believe this report is , although as far as it went, is ok, I do not have any disagreement with it, except it was a incomplete report.

See
Note 1
Page 20

Next thing, was with the Town Clerk, apparently they found that there was 20 marriage licenses that came up missing, there is no record of were they went, how they went, or if any money was brought in from these , so why was this not mentioned in the report. The previous Town Clerk has already been found to have stolen and used money of the Towns and then repaid it back herself, that the auditors found out, so if this is the case, why was there not a mention of 20 marriage licenses that came up missing and no record of the money that was collected for these marriage licenses.

See
Note 3
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I do not believe that this report is complete . For the amount of time that was spent on this report for approximately six months with two to three people being there on a weekly basis, with one being put up in a hotel and the money that was spent and with turning over every nook and cranny and looking at every single penny spent in the Town, I feel that we should of got a full report not a incomplete one

See
Note 4
Page 20

I am requesting that this report be upgraded on these issues that I addressed and go from there, because I am not pleased with the inconsistency and incompleteness of this report

See
Note 4
Page 20

I will await your response and go from there.

Thank you very much and
Have a good day

P.S. If you would like me to write a draft with what should be in this report regarding the fraud and misappropriations of funds, I would be more than happy to do so.

Sincerely,

David M. Reed
Town of Cayuta
Supervisor

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

Our report included a discussion about the health insurance premiums owed by the Justice and MEO in the Supervisor's section of the report.

Note 2

The Board is responsible for overseeing the Town's assets and ensuring that adequate internal controls are in place to safeguard these assets. If the Board has concerns about the misappropriation of funds, fraud or theft of assets, it does not have to wait for an OSC audit to confirm it. The Board may consult an attorney or the Schuyler County District Attorney for potential prosecution at any time it deems necessary.

Note 3

We reviewed the Town Clerk's deposit compositions and monthly reports for the period January 1, 2012 through June 6, 2014. Our review did not disclose any missing marriage licenses.

Note 4

We conducted our audit in accordance with OSC policies and generally accepted government audit standards (GAGAS). Our report is accurate and complete.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objectives of our audit was to examine Board oversight and cash receipts and disbursements. To achieve our audit objectives and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Board members and Town officials and reviewed Board minutes to gain an understanding of the Town's operations and department processes and procedures, and to determine if the Board had developed policies and procedures and a long-term plan.
- We interviewed Town officials to determine what processes were in place and gain an understanding of the Town's financial situation and budget process; we reviewed the results of operations and changes in fund balance for the highway and general funds to analyze fund balance. We also compared budgeted revenues and appropriations to actual results of operations to determine the reasonableness of the Town's budgets for 2011 through 2013. We also reviewed the results of current year operations and estimates of year-end fund balance in the Town's general and highway funds.
- We randomly selected February, April, September and November 2013 and January and May 2014; we reviewed all 158 claims during these months totaling \$254,542 for adequate supporting documentation, Board approval and Board review of claims. We also traced canceled checks to the cash disbursements journal to determine if disbursements were accurately recorded and reported. In addition, we footed the totals on the abstracts for accuracy.
- We randomly selected February, April, September and November 2013 and January and May 2014; we obtained deposit compositions for the Supervisor's bank accounts. We traced all 26 receipts totaling \$352,759 from the bank statements to the deposit compositions and cash receipts summary/journals to determine if the receipts were recorded properly. We also compared the check date on the deposited checks to the bank deposit date to determine if receipts were deposited within 10 days per Town Law. We judgmentally decided to exclude 2012 from the testing as the sample selected was sufficient to draw a conclusion regarding the accountability of both the former Supervisor and the current Supervisor.
- We reviewed bank reconciliations prepared by the former bookkeeper for December 31, 2012 and December 31, 2013 and current bookkeeper for January 31, 2014 and July 31, 2014 for accuracy.
- We obtained deposit compositions for the Clerks' (Town Clerk) bank accounts for the period January 1, 2012 through June 6, 2014. We traced all moneys from the composites to supporting documentation and to the Clerks' monthly reports to determine if all moneys deposited were reported and recorded.
- We reviewed all 104 disbursements totaling \$10,088 processed by the two Clerks during the period of January 1, 2012 through June 6, 2014 to ensure the Clerks recorded them accurately.

- We obtained deposit compositions for the Clerks' (Tax Collector) bank accounts for the period January 1, 2012 through April 2, 2014 totaling \$1,195,244. We also obtained a report of all receipts from the tax program for the same period totaling \$1,254,702. The report from the tax program included payments received by the County and did not include payments in lieu of taxes received by the Tax Collector and deposited into the Tax Collector's account. We traced all copies of checks to reports to ensure the Clerk recorded them accurately. We also reviewed disbursements made by the Clerk to the Supervisor and the County for timeliness and accuracy.
- We performed cash counts for the Supervisor, Clerk, Justice and CEO.
- We reviewed the CEOs' building permits to determine if they were press-numbered, the number sequence was intact and the fee was denoted. We traced building permits to the Clerks' records to ensure payment was received. We sent confirmations out to 25 individuals that were issued a building permit from January 1, 2013 through August 18, 2014 asking them to provide proof of payment. We received 19 confirmations back and documented what each stated.
- We requested a backup of the Justice's automated data, observed the backup and sent the backup to our Applied Technology Unit (ATU) to be used for analysis against the JCF and DMV data; we selected only the records from our scope period of January 1, 2012 through August 5, 2014. We then reviewed the tickets to determine what the fees were, reviewed the checkbook register to determine what amount was collected, reviewed the bank statement to ensure the amount collected was deposited and reviewed the case file if necessary for more detail. We also reviewed the gaps in receipt numbers and discussed with the Town Justice application vendor, Town Justice and Court Clerk to determine why these gaps existed.
- We randomly selected February, April, September and November 2013 and January and May 2014 for the Justice Court. We traced all 18 deposits totaling \$17,314 from these bank statements to 108 receipts in the computer system, to the check register and checkbook raw data obtained from ATU analysis performed on the backup we received from the Justice's automated data. Using this information, we sought to determine if receipts had been properly recorded and deposited, and if moneys were remitted and reported in a timely and accurate manner.
- We prepared a bank reconciliation for the Justice and compared it to the Justice's check register for accuracy.

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

APPENDIX D

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