



Town of Dickinson

Fiscal Oversight

Report of Examination

Period Covered:

January 1, 2013 — September 30, 2014

2014M-337



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 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 Dickinson, entitled Fiscal Oversight. 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*

Introduction

Background

The Town of Dickinson (Town) is located in Franklin County and has a population of approximately 825 residents. The Town is governed by an elected five-member Town Board (Board), which comprises the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town moneys, maintaining accounting records and providing financial reports to the Board.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, public improvements, planning and general governmental support. The Town's budgeted appropriations for the 2014 fiscal year were approximately \$615,000 and were funded primarily with real property taxes.

Objective

The objective of our audit was to review the Town's internal controls over financial operations. Our audit addressed the following related question:

- Did the Board adequately oversee the Town's financial operations?

Scope and Methodology

We examined the Town's financial operations for the period January 1, 2013 through September 30, 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 B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Fiscal Oversight

The Board is responsible for effective financial planning, as well as overseeing the Town's financial operations. These responsibilities include establishing internal controls over financial operations and periodically reviewing those controls to ensure they are operating effectively. The Supervisor is responsible for providing the Board with timely and accurate financial information. The Board can use this information for making informed decisions when preparing the annual budget, monitoring the Town's financial operations throughout the year and ensuring compliance with relevant laws and policies. With limited exceptions, New York State Town Law (Town Law) requires the Board to audit and approve all claims before the Supervisor can make payment. Town Law also requires the Board 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 Board did not effectively oversee the Town's financial operations. The Supervisor did not provide the Board with adequate monthly financial reports. In addition, the Town's procedures for auditing claims were not in compliance with Town Law. Furthermore, the Board did not annually audit or cause an audit of records and reports of all Town officers or employees who received or disbursed moneys on behalf of the Town. As a result of these deficiencies, there is an increased risk that inappropriate payments or irregularities could occur and the Board's ability to effectively monitor the Town's financial operations is diminished.

Monthly Reports

The Board needs complete, accurate and current financial information to effectively monitor the Town's financial operations. Town Law requires that, at the end of each month, the Supervisor submit a monthly report to the Board of all moneys received and disbursed during the month. The report should also include reconciled cash balances for each fund, comparisons of actual revenues and expenditures to amounts estimated in the annual budget (budget status reports) and bank reconciliations accompanied by bank statements. Because the Board is ultimately responsible for the Town's financial operations, it is incumbent upon the Board to insist that the Supervisor present the Board with adequate monthly financial reports.

The Supervisor did not provide the Board with adequate monthly financial reports that would enable it to effectively monitor the Town's financial activity, nor did the Board members request any additional information. The Board did not receive a detailed statement

of all moneys received and disbursed during the month, budget status reports, or bank reconciliations accompanied by bank statements. Instead, the Board received a monthly financial report from the Supervisor that only contained the Town's bank account balances¹ as of the day of their meeting. In fact, the cash balance that is presented to the Board for the general fund checking account consists of funds for both the general fund and the Town's lighting district, because the checking account is a commingled bank account.

A monthly Supervisor's report was not prepared because Town officials were unaware of the statutory reporting requirement. The Supervisor's failure to provide adequate monthly financial reports to the Board hinders its ability to exercise financial oversight and increases the risk that errors or irregularities could occur and remain undetected and uncorrected.

Claims Auditing

The audit and approval of claims is one of the most critical elements of the Town's internal control system. Town Law requires the Town Clerk to sequentially number claims and present them to the Board and for the Board members to audit them and adopt a resolution authorizing the payment of those claims that were approved. Effective claims auditing procedures ensure that every claim against the Town is subject to a thorough and deliberate review and contains enough supporting documentation to determine whether it complies with statutory requirements and policies and that the amount claimed represents an actual and necessary Town expenditure. With limited exceptions,² Town Law requires the Board to audit and approve all claims against the Town prior to directing the Supervisor to pay them. After the claims have been audited, the Town Clerk is required to list Board-audited and approved claims on an abstract, specifying the number of each claim, the name of the claimant, the amount allowed and the fund and appropriation account to be charged. The Town Clerk then must sign and present the abstract to the Supervisor, directing her to pay the claims listed.

The Supervisor indicated that the Board performs a deliberate audit of each claim before she is authorized to make a payment, which is indicated by the Board members' signatures on individual claims. However, we found that the claims presented to the Board were not sequentially numbered, the Board minutes did not include

¹ On the day of the monthly Board meeting, the Supervisor logs in to the Town's online banking module and prints a screen shot of the Town's current bank account balances, which is then presented to the Board.

² The Board may, by adopting a resolution, authorize payment of certain claims in advance of its audit. Claims that may be paid in advance include claims for public utility services, postage, freight and express charges. Such prepaid claims must still be presented for audit at the next regular Board meeting.

resolutions³ indicating the claims that were approved and there was no documentation of the date Board members approved the claims. As a result, Town officials could not provide support that the Board had audited and approved claims prior to payment. In addition, although the Town Clerk prepares abstracts, we found that the abstracts were prepared after the check disbursements for the corresponding claims that were listed on the abstracts had been made. As a result, the Supervisor made payment on claims before receiving an abstract from the Town Clerk, directing her to do so.

Due to these deficiencies, we reviewed a random sample of 106 check disbursements⁴ totaling \$159,370 that were made during our audit period to determine if the corresponding claims for those disbursements were signed by the Board members indicating their approval, were supported by adequate documentation and were for appropriate Town purposes. Except for some minor exceptions that we discussed with Town officials, we found that the claims were signed by the Board members indicating their approval, were supported by adequate documentation and were for appropriate Town purposes.

Although we did not find any material discrepancies, the lack of effective internal controls over the claims auditing process increases the risk that improper claims may be paid against the Town without detection.

Annual Audit

Town Law requires the Board 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 accounted for), to identify conditions that need improvement and to provide oversight of the Town's financial operations. A thorough annual audit also provides the Board an added measure of assurance that financial records and reports contain reliable information on which to base management decisions.

With the exception of the Town Clerk and Town Justice, we found no evidence that the Board had audited the financial records and reports of any other officers and employees who received or disbursed moneys on behalf of the Town during the 2013 fiscal year. Specifically, the Board did not audit, or cause to be audited, the financial records and reports of the Supervisor, Tax Collector or Code Enforcement Officer.

³ The Board minutes contain motions indicating the Board's approval of the payment of claims for the month but do not indicate claim numbers, amounts or any other information that would identify the claims that were audited and approved for payment.

⁴ Appendix B contains our sampling methodology.

The Supervisor stated that this resulted because the Board and she were not aware of the statutory requirement that an annual audit must be performed of the financial records and reports of all officers and employees who received or disbursed moneys on behalf of the Town. The Board's lack of a complete annual audit diminishes the Board's ability to effectively monitor the Town's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected.

Recommendations

The Supervisor should:

1. Prepare and provide the Board with adequate monthly financial reports, including a detailed statement of all moneys received and disbursed during the month, reconciled cash balances for each fund, budget status reports and bank reconciliations accompanied by bank statements.
2. Only pay Board-approved claims listed on abstracts provided by the Town Clerk, except where allowed by statute or resolution.

The Town Clerk should:

3. Sequentially number claims presented to the Board for audit and approval.

The Board should:

4. Properly document its audit and approval of claims by adopting resolutions that contain the total dollar amounts and sequential numbers of the claims that have been Board-approved for payment.
5. Annually audit, or cause to be audited, the financial records and reports of all Town officers and employees who receive or disburse moneys on behalf of the Town.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

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TAX COLLECTOR

Kelly Clark
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Audit # 2014M-337

Fiscal Oversight

February 12, 2015

██████████
██████████
NYS Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801

Dear ██████████,

This letter is intended to combine the response to the auditor's draft along with the Town of Dickinson's Corrective Action Plan.

On behalf of the Dickinson Town Board, we appreciate the opportunity to review the preliminary draft findings. The Board understands the primary objective of the financial audit was to review the town's financial operations for the time period January 1, 2013 - September 30, 2014.

The Town Board concurs with the audit recommendations and has since implemented the corrective procedures.

Recommendation 1:

The Supervisor should:

- 1) Prepare and provide the board with adequate monthly financial reports including a detailed statement of all money received and disbursed, bank statements with bank reconciliations for each fund, detailed balance for all revenue and appropriation accounts.
- 2) Only pay board approved claims listed on abstracts provided by the Town Clerk except when authorized by statute and/or resolution.

Town Response 2:

1. The Board agrees with these findings. As of December 2014, the supervisor has provided all financial reports including all money received and disbursed, reconciled balances for all funds, all bank statements, and budget status reports on a monthly basis so that the Board can manage the town's finances more effectively.

2. The Supervisor only pays board approved claims listed on abstracts, except where allowed by statute and or resolution.

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February 12, 2015

Recommendation 2:

The Town Clerk should:

Sequentially number claims presented to the Town Board for audit and approval.

Town Response 2:

- 1) The Board also agrees with this recommendation. As of January 1, 2015 the Town Clerk has started sequential numbering all claims presented to the Board.

Recommendation 3:

The Town Board should:

- 1) Properly document the audit and approval of claims by adopting resolutions that contain the total dollar amount and the sequential number of claims that have been Board approved for payment.
- 2) Annually audit financial records, reports, bank statements for all town Officials and or employees who receive money on behalf of the town

Town Response 3:

The Town Board concurs with the recommendation.

- 1) As February 2015, the Board has implemented full documentation of the sequentially numbered claims along with the total dollar amounts of board approved vouchers in the resolution.
- 2) The Town Board will audit all town officials and or employees who receive and or disburse money on behalf of the town.

In closing, the Town Board of Dickinson appreciates the State Controllers' Staff and the guidance they have provided us. The recommendations have allowed us to improve our financial responsibilities.

A hard copy of this letter will also be provided. If there are any questions concerning our audit response or our corrective plans, please notify us.

Sincerely,

Sherry Smith
Supervisor

Cc: Town of Dickinson Board Members

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets and monitor financial activities. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk.

During the initial assessment, we interviewed Town officials, performed limited tests of transactions and reviewed pertinent documents such as Town policies, Board minutes and 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 potential fraud, theft and professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected fiscal oversight for further audit testing.

To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed Town officials and reviewed various financial records and reports related to the Town's financial activities to gain an understanding of the internal controls over the reporting of financial transactions and claims auditing. We then documented the associated effects of any deficiencies found in those controls.
- We assessed the adequacy of the financial reports that the Supervisor provided to the Board.
- We reviewed a random sample of 106 check disbursements that were made during our audit period to verify if the corresponding claims for those disbursements were signed by the Board members indicating their approval, were supported by adequate documentation and were for appropriate Town purposes. Our sample consisted of the selection of all check disbursements that were made from the general fund checking account and highway fund checking account during the months of April 2013, January 2014, February 2014 and August 2014. We used a computerized random number generator to select the four months.
- We interviewed Town officials and reviewed Board minutes and annual audit documentation to find evidence that the Board had audited the financial records and reports of all Town officers and employees who received or disbursed moneys on behalf of the Town during the 2013 fiscal year.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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