



Town of Groveland

Fiscal Oversight

Report of Examination

Period Covered:

January 1, 2012 — December 31, 2014

2014M-285



Thomas P. DiNapoli

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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 Groveland, 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 Groveland (Town) is located in Livingston County and has approximately 3,250 residents. The Town is governed by an elected five-member Town Board (Board) which comprises the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general oversight of Town operations and finances.

The Supervisor¹ is the chief fiscal officer (CFO) and is responsible for the receipt, disbursement and custody of Town money; maintaining accounting records; and providing the Board with timely, accurate and useful financial reports. For 2013 and 2014, the Board authorized the Supervisor to hire an accounting firm (Firm) to perform some of the Supervisor's financial duties.

The Town provides various services to its residents, including general administration, road maintenance, snow removal and fire protection. The Town's main operating funds include a general and a highway fund. For 2015, the Town's general fund budget appropriations are \$435,999 and the highway fund budget appropriations are \$645,622, funded primarily by real property taxes, payments in lieu of taxes, Justice Court operations, services provided to other governments and State aid.

Objective

The objective of our audit was to examine the oversight and management of the Town's fiscal operations. Our audit addressed the following related question:

- Did the Board provide sufficient oversight over the Town's financial operations?

Scope and Methodology

We examined the Town's fiscal oversight over financial operations for the period January 1, 2012 through December 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 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

¹ The Supervisor retired at the end of December 2013 with one year still remaining of his elected term. The Board appointed the Deputy Supervisor to fill the remainder of his unexpired term.

generally agreed with our recommendations and indicated they planned to initiate corrective action.

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

Fiscal Oversight

The Board is responsible for effective financial planning and management (fiscal oversight) of the Town. Board members are the Town's fiscal stewards who are responsible for directing and overseeing the Town's financial activities and ensuring compliance with relevant laws and policies. The Supervisor is responsible for maintaining complete and accurate financial records and providing access to these records to other Board members and the general public.

Board members need accurate financial records to make informed decisions when reviewing and monitoring the annual budget and the Town's financial health throughout the year. While the Board may contract with a firm to perform some of the Supervisor's financial duties and should have a written contract outlining the services to be performed, it is important that the Supervisor provide adequate oversight over the work performed² to ensure that the work is complete, accurate and performed in a timely manner.

The Board did not provide sufficient oversight of the Town's financial operations. The Board did not have a contractual agreement with the Firm performing financial services for the Town prior to 2013, and the Supervisor did not appropriately monitor the Firm's work. The Supervisor also did not adequately review monthly financial statements and reports, prepared by the Firm, before providing them to the Board, to ensure that they were complete and accurate. Although the Town had a written contractual agreement with the Firm for accounting services for 2013 and 2014, these contracts lacked specific details of the services to be performed. In addition, the Supervisor contracted with the Firm for the 2014 accounting services without obtaining prior Board authorization as required by law.³ Further, the Town Clerk (Clerk)⁴ performed certain financial duties on the Supervisor's behalf, which was inappropriate due to the incompatible nature of their offices.

² A firm can perform work that is directly supervised by a town supervisor, as long as the firm does not exercise any discretionary judgment in the work performed. The supervisor must retain ultimate responsibility for performing all discretionary functions of his office. Discretionary functions involve the exercise of reasoned judgment, which could typically produce different acceptable results.

³ After we completed our fieldwork, the Board at its January 2014 meeting authorized the Supervisor to continue using the Firm's services. The Board then entered into a new contract with the Firm, which contained the services to be provided in 2014.

⁴ The Clerk also serves as the Town Tax Collector.

The Town's financial data must be complete, accurate and up to date to be relevant and useful for managing Town operations. As the Town's CFO, the Supervisor is responsible for receiving, disbursing and safeguarding cash and maintaining a record of such cash transactions. If the Board contracts with an outside firm to perform some of the Supervisor's financial duties, it should have a written contract in place that outlines the specific services to be performed and the compensation to be paid. Additionally, it is important that the Supervisor oversees the work performed by such a firm to ensure that it is performing the agreed upon duties in a timely and effective manner. Further, allowing the Firm⁵ to have access to a Town bank account circumvents New York State Town Law (Town Law), which permits only the Supervisor, or Deputy Supervisor, in instances when the Supervisor is unavailable or unable to perform his duties, to disburse Town funds.

The Supervisor did not appropriately monitor the Firm performing some of his financial duties. Town officials did not have a written contract with the Firm performing these accounting duties prior to 2013, and the Supervisor did not have adequate monitoring procedures in place to review the Firm's work. Further, the Firm prepared and printed Town checks, prepared payroll direct deposits, filed the Town's payroll reports with government agencies, made electronic fund transfers to government agencies from the Town's payroll bank account, and prepared bank reconciliations and all financial reports without sufficient oversight from the Supervisor.

Budget status reports can be an effective tool to help the Board manage Town finances by allowing for a line-item comparison of budget appropriations with actual expenditures. However, the Supervisor failed to ensure that the Firm submitted budget status reports and other accounting records in a timely manner, which were sometimes not submitted until the day of the Board meeting. As a result, the Board had no assurance that the accounting records and financial reports, prepared on the Supervisor's behalf, were complete and accurate. Further, the Board did not have sufficient time to inspect and review these reports prior to meetings to make informed decisions based upon such reports.

Furthermore, the Supervisor delegated responsibility over electronic access to the various Town bank accounts (including administrative rights and processing electronic fund transfers between various Town bank accounts) to the Clerk. In delegating these responsibilities, the Supervisor not only delegated responsibilities that involved discretionary judgment, but delegated responsibilities that were

⁵ District officials told us they will be changing firms as of January 1, 2015. The new firm will have read only access to the bank accounts.

incompatible, which circumvents legally established controls between the Clerk's and the Supervisor's duties.⁶

Due to these weaknesses, we reviewed cash receipts totaling \$102,552 and cash disbursements totaling \$134,903 for two months during our audit period to determine if the monthly financial reports prepared by the Firm were accurate and complete.⁷ Although we found that the Firm generally recorded cash transactions accurately, the resulting monthly financial reports prepared for the Board were not accurate and complete. Specifically we found the following discrepancies in 2013 and 2014:

- Financial reports did not include all the cash received and disbursed for Justice Court operations because the Firm failed to properly account for the Town's share of revenue.
- Certain amounts reported by the Firm on the general fund's and special district fund's balance sheets were incorrect throughout the audit period. This included general fund accounts receivable, Justice Court receivables, general fund accounts payable and amounts due to the Office of the State Comptroller (OSC) and the New York State and Local Retirement System and amounts due to and from other funds.

Although there was a written contractual agreement between the Town and the Firm for 2013, we found that the one page document lacked the details needed to clearly define the Firm's role and its responsibilities. In addition, the Supervisor entered into the written agreement with the Firm for 2014 accounting services without obtaining prior Board authorization through resolution as required by Town Law. Similar to the 2013 contract, the 2014 contract also lacked clear and concise details to specify the Firm's duties and responsibilities for the work to be performed.⁸

The lack of a detailed contract between the Town and the Firm in prior years prevented Town officials from ensuring that the Firm carried out all of its expected financial duties. Additionally, the Supervisor's ability to adequately oversee the Firm's performance of its duties was significantly weakened. As a result, there is an increased risk that errors or irregularities could occur and not be detected or corrected in a timely manner.

⁶ Attorney General Opinion 89-66

⁷ Refer to Appendix B for information on our sample selection.

⁸ The Town engaged a new Firm to begin providing accounting services January 1, 2015, and the contract for those services contains additional details that were lacking in prior agreements.

Recommendations

The Board should:

1. Ensure that future written contractual agreements for accounting services contain clear and concise detailed information outlining the independent contractor's responsibilities.

The Supervisor should:

2. Oversee the work performed by the Firm on his behalf to ensure that the work performed is correct and that monthly Supervisor statements and budget status reports are accurate and complete.
3. Disburse all Town money and discontinue delegating incompatible duties to the Clerk.
4. Ensure that monthly financial reports prepared by the Firm are provided within reasonable time frames prior to Board meetings to allow for sufficient review.
5. Ensure that Town accounting records are readily available to the Board and for public inspection as required.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN CLERK

Sandra L. Bean

HIGHWAY SUPERINTENDENT

Greg Adamson

CODE ENFORCEMENT OFFICER & FIRE

MARSHALL

Ronald Maxwell

TOWN COUNCIL PERSONS

Craig Phelps

William Devine

Ron Niedermaier

TOWN OF GROVELAND

Deputy Supervisor & Town Councilman

John Driscoll

SUPERVISOR

William E. Carman

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March 9, 2015

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
Rochester Regional Office
The Powers Building
16 West Main Street – Suite 522
Rochester, NY 14614-1608

Dear Mr. Grant:

I am writing in response to your audit of the Town of Groveland for the time period of January 1, 2012 thru December 31, 2014. I want to start out by thanking you for this examination and fiscal oversight and your findings that resulted from it.

This audit came at a most opportune time for me & my team, as I took over as the Supervisor January 1, 2014 and despite being on the Board for years, I had no idea of the depth of the financial processes & requirements that are entailed when one is the Town's Supervisor. The findings that you have pointed out have given us the "road-map" to improving our operations.

We are in complete agreement of your findings with regard to our prior accounting Firm. Currently in our January 1, 2015 contract with our new Accounting Firm, we have in place written specifications to be performed by them & oversight of that work performed by me. Reports have been more concise & given in a timely manner

Not having the knowledge of the proper procedures, I did temporarily enlist the help of our Town Clerk. Once the proper procedures were pointed out to me, we budgeted to hire a Supervisor Secretary to assist facilitating my responsibilities.

I really do feel that this has been a very beneficial process for us. I look forward to providing you with our detailed Corrective Action Plan.

Thank you.

Respectfully Submitted,

William E. Carman
Supervisor, Town of Groveland

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Over overall goal was to assess the adequacy of internal controls put in place by Town officials to ensure that financial activity was properly recorded and Town money was adequately safeguarded. To accomplish this, we performed an assessment of internal controls so we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, Board oversight, cash receipts and disbursements, Supervisor records and reports, purchasing and claims processing, payroll and personal services and information technology.

During our initial assessment, we interviewed Town officials, performed tests of transactions and reviewed pertinent documents such as Town policies, procedures 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 or professional misconduct. We then decided upon the reported audit objective and scope by selecting for audit the area most at risk. We selected fiscal oversight for audit.

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

- We interviewed Town officials and employees and examined available records and reports to gain an understanding of Town operations.
- We reviewed Board minutes from January 2012 through October 2013 for actions relevant to annual audits, budgeting, budget monitoring and financial condition.
- We reviewed the 2013 written contractual agreement with the Firm to gain an understanding of the Firm's accounting responsibilities. We also obtained a copy of the 2014 and 2015 written contractual agreements.
- We traced all cash receipt transactions for two randomly selected months (May 2012 and June 2013) from the cash receipt reports prepared by Town officials to bank statements and to accounting records prepared by the Firm.
- We traced all cash disbursement transactions for the same two randomly selected months (May 2012 and June 2013) from Board-approved abstracts of claims, department-approved time records and approved vouchers including supporting documentation to the bank statements, including canceled check images, and to accounting records prepared by the Firm.
- We reviewed the Supervisor's statements and the budget status reports for two randomly selected months (May 2012 and June 2013) to determine if the reports prepared by the Firm were accurate and complete. We also examined the December 2014 Supervisor's statements and budget status report.

- We traced all electronic fund transfers between the Town's various bank accounts for 2012 made by the Clerk to determine if there were any irregularities.
- We conducted a detailed analysis of cash transactions relating to collecting, disbursing and revenue received from Justice Court operations from January 2012 through September 2013. We then compared cash collected and disbursed, and the Town's resultant share of monthly revenue to monthly Supervisor statements and monthly budget status reports prepared by the Firm to determine the accuracy and completeness of the reports.
- We conducted a detailed analysis of financial transactions related to two lighting districts from January 1, 2012 through September 30, 2013. We then compared the amounts of cash and amount due to the general fund with the monthly budget status reports to determine if the reports were accurate and complete.
- We reviewed an electronic version of the December 2012 budget status report prepared by the Firm, which included data for the entire 2012 year, to determine the cause of errors and inaccuracies identified in copies of these reports provided to the Board. We also reviewed the 2011 through 2013 annual financial reports filed with OSC to determine if they were timely, accurate and complete.

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.

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