



# Town of Hebron

## Fiscal Oversight

### Report of Examination

Period Covered:

January 1, 2014 — January 31, 2015

2015M-59



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

June 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 Hebron, 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 Hebron (Town) is located in Washington County and has a population of approximately 1,850 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 Clerk (Clerk) is responsible for presenting claims against the Town to the Board for audit and serves as the Town's Tax Collector, responsible for collecting real property taxes pursuant to tax warrants provided from Washington County.

The Town provides various services to its residents, including maintenance and improvement of Town roads, snow removal and general governmental support. The Town's budgeted appropriations for the 2015 fiscal year are approximately \$1 million, 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, 2014 through January 31, 2015.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

## 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 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 Clerk's office.

## Fiscal Oversight

The Board is responsible for effective financial planning and oversight of the Town's financial operations. These responsibilities include establishing internal controls over financial operations and periodically reviewing them to ensure they are operating effectively. The Supervisor is responsible for providing the Board with timely and accurate financial 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,<sup>1</sup> 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 Town checks to be signed by the Supervisor or, in his absence, by the Deputy Supervisor and 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 the Town's behalf 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, and the Town's procedures for auditing claims and signing checks were not in compliance with Town Law. The Board also did not annually audit or provide for an audit of records and reports of all Town officers or employees who received or disbursed moneys on the Town's behalf.

### Monthly Reports

Town Law requires the Supervisor to 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 should require the Supervisor to provide such monthly financial reports.

The Supervisor did not provide the Board with monthly budget status reports or bank reconciliations with the bank statements, and the Board members did not request any additional information. The Supervisor's monthly financial report contained only a detailed statement of all moneys received and disbursed during the month.

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<sup>1</sup> 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.

Therefore, the Board's financial oversight is hindered and there is an increased risk that errors or irregularities could occur without being detected and corrected.

## **Claims Audit and Check Signing**

Town Law requires the Clerk to sequentially number claims and present them to the Board for audit and the Board to adopt a resolution authorizing payment of the approved claims. An effective claims audit is a thorough and deliberate review to ensure that each claim contains supporting documentation to determine whether it complies with statutory requirements and policies and whether the amount claimed is an actual and necessary Town expenditure. After the Board has audited the claims, the 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 Clerk must sign and present the abstract to the Supervisor, directing him to pay the claims listed. The Supervisor then must make the corresponding disbursements by issuing checks that are signed by himself or, in his absence, by the Deputy Supervisor, in compliance with Town Law.

The Board did not have adequate procedures for auditing claims, and the Supervisor did not sign checks as required. The Clerk did not present all claims to the Board and, therefore, the Board did not audit and approve all of them. Generally, the unaudited claims were for utilities and health insurance premiums paid prior to Board audit to ensure that the payments were made by the due dates; however, they were not subsequently presented to the Board for audit. Although the Clerk prepared abstracts of the Board-approved claims and signed the abstracts, the Supervisor delegated his responsibility of signing the actual checks to his clerk. Therefore, all checks disbursed during our audit period were signed by the Supervisor's clerk. The Supervisor told us that checks were being signed by the Supervisor's clerk when he took office and he was not aware of the statutory requirement that only he or the Deputy Supervisor must sign Town checks.

We reviewed a sample of 100 payments<sup>2</sup> totaling \$422,826 made during the audit period to determine if the corresponding claims were audited and approved by the Board prior to payment, agreed with the abstract, were supported by adequate documentation and were for appropriate Town purposes. We found that 17 payments totaling \$17,825 were made for claims that were not audited and approved by the Board. However, these payments were supported by adequate documentation and were for appropriate Town purposes,

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<sup>2</sup> Our sample comprised all seven payments that were made to the Supervisor's clerk during our audit period and 93 other payments that we selected using a computerized random number generator.



such as utilities and health insurance premiums. Except for minor discrepancies that we discussed with Town officials, the claims for the other 83 payments were audited and approved by the Board prior to payment, agreed with the abstract, were supported by adequate documentation and were for appropriate Town purposes.

Although we did not find any material discrepancies, the Town's weak internal controls over cash disbursements, combined with the Supervisor's delegation of check signing responsibilities to his clerk, increases the risk that improper payments may be made 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. This annual accounting is performed to provide assurance that public moneys are handled properly (deposited in a timely manner, accurately recorded and accounted for), identify conditions that need improvement and 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 its management decisions.

With the exception of the Town Clerk/Tax Collector and Town Justice, we found no evidence that the Board had audited the financial records and reports of any officers and employees who received or disbursed moneys on the Town's behalf during the 2013 or 2014 fiscal years. The Board did not audit, or cause to be audited, the financial records and reports of the Supervisor or the Recreation Supervisor.<sup>3</sup> The 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 reconciled cash balances for each fund, budget status reports and bank reconciliations accompanied by bank statements.
2. Pay only Board-approved claims listed on abstracts provided by the Clerk, except where allowed by statute or resolution.
3. Ensure that Town checks are signed only by himself or, in his absence, by the Deputy Supervisor, as required by Town Law.

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<sup>3</sup> The Recreation Supervisor is responsible for collecting fees for the Town's swim program.



The Clerk should:

4. Present all claims received for payment to the Board for audit and approval.

The Board should:

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.

TOWN OF HEBRON  
OFFICE OF THE SUPERVISOR  
3161 COUNTY ROUTE 30  
SALEM, NY 12865

June 15, 2015

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

RE: Town of Hebron – Acknowledgement of Audit Findings and CAP

This letter will act as both a response to your audit and as a Corrective Action Plan (CAP). First of all, I would like to express my appreciation for the professional and courteous manner in which the staff conducted themselves during the lengthy audit process.

The Recommendations were as follows and CAP is included in bold:

The Supervisor should:

1. Prepare and provide the Board with adequate monthly financial reports, including reconciled cash balances for each fund, budget status reports, and bank reconciliations accompanied by bank statements. **The Supervisor began providing the Town Board with monthly budget to actual reports, copies of monthly bank statements and reconciliations beginning in February while the auditor was still here.**
2. Pay only Board-approved claims listed on abstracts provided by the Clerk, except where allowed by statute and/or resolution. **The Town Board of Hebron passed Resolution No. 17 on February 9, 2015 authorizing the Supervisor to pay claims in advance of audit for utilities and developed a pre-approval process for claims to pay health insurance premiums, all of which are presented to the Town Board at their next meeting for audit and approval.**
3. Ensure that Town checks are signed only by himself, or in his absence by the Deputy Supervisor, as required by Town Law. **The Supervisor or Deputy Supervisor are signing all checks.**

The Clerk should:

4. Present all claims received for payment to the Board for audit and approval. **All claims, including claims for utilities and health insurance are presented to the Town Board for audit and approval.**

TOWN OF HEBRON  
OFFICE OF THE SUPERVISOR  
3161 COUNTY ROUTE 30  
SALEM, NY 12865

The Board should:

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. **The Town Board audited the financial records of the Supervisor for 2013 and 2014 on March 2, 2015. The Board will ensure that future audits are conducted in a timely basis. The Recreation Supervisor oversees a six week summer swim program and will begin issuing duplicate receipts. The records of the Recreation Supervisor will be audited by the Town Board.**

The Supervisor, Town Clerk and Town Board are the people responsible for implementation of the plan. As of the date of this submission, all items in the plan have been implemented and new procedures are in place. This combined response has been approved by the Town Board of the Town of Hebron.

Sincerely,

Brian R. Campbell, Supervisor  
Town of Hebron

## **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 for the period January 1, 2014 through January 31, 2015. To accomplish our audit objective and obtain valid audit evidence, we performed the following steps:

- 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, claims auditing and signing of Town checks. 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 sample of 100 payments made during the audit period to determine if the corresponding claims were audited and approved by the Board prior to payment, agreed with the abstract, were supported by adequate documentation and were for appropriate Town purposes.
- 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 and 2014 fiscal years.

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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