



Town of Sidney Supervisor's Disbursements

Report of Examination

Period Covered:

January 1, 2014 — June 25, 2015

2015M-214



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 Sidney, entitled Supervisor's 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*

Introduction

Background

The Town of Sidney (Town) is located in Delaware County and has approximately 5,800 residents. The Town provides various services to its residents, such as general governmental support, street maintenance, snow removal and recreational services. The Town's 2015 budgeted appropriations are approximately \$2.2 million, funded primarily with real property taxes, State aid and recreational fees.

The Town is governed by an elected Town Supervisor (Supervisor) and four elected council members (Board). The Board is responsible for the general oversight of Town operations. The Supervisor, as chief fiscal officer, is responsible for the day-to-day management of the Town, including basic accounting functions and disbursing Town funds. Upon taking office, the Supervisor continued to employ a bookkeeper and contract with two vendors hired by the former Supervisor, who collectively perform the disbursement duties in his office. The hired bookkeeper (bookkeeper) is an employee of the Town and performs financial duties, such as accounting for the Town's revenues, preparing claims vouchers and issuing non-payroll checks. The Supervisor contracts with one vendor to process payroll (payroll vendor) and a second vendor¹ to provide the rest of the financial functions (outsourced bookkeeper).

Objective

The objective of our audit was to assess the Board and Supervisor's oversight of the disbursement process in the Supervisor's office. Our audit addressed the following related question:

- Did Town officials provide adequate oversight of the Supervisor's disbursements?

Scope and Methodology

We examined the Supervisor's disbursements for the period January 1, 2014 through June 25, 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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

¹ This vendor is located in California and works remotely using the Town's computerized financial software.

**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. District officials 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 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.

Supervisor's Disbursements

The Supervisor is responsible for overseeing the duties performed in his office to ensure that only proper Town expenditures are made. While the Supervisor can hire a bookkeeper or contract with vendors to assist him with his duties, he is responsible for providing adequate oversight of those duties, including verifying that only disbursements approved by the Board are made. In addition, the Supervisor should approve payroll before his electronic signature is used. The Board is required to annually audit the Supervisor's records to provide an opportunity for the Board to assess the reliability and timeliness of the Supervisor's books, records and supporting documents.

Although the Town disbursed almost \$2.2 million in 2014, neither the Supervisor nor the Board provided adequate oversight of the disbursement process to ensure that only proper Town disbursements are being made. Upon taking office, the Supervisor continued to employ a bookkeeper and contract with two vendors (the payroll vendor and the outsourced bookkeeper) hired by the former Supervisor, who collectively perform the disbursement duties in his office. However, the Supervisor does not provide adequate oversight of the bookkeeper or the two vendors. In addition, the Supervisor does not ensure all disbursements are approved by the Board and does not always control his signature. Furthermore, the Board does not perform an annual audit of the Supervisor's records.

The bookkeeper prepares claims vouchers and issues non-payroll checks. Although the Supervisor manually signs the non-payroll checks, he does not review bank statements or canceled check images to verify that only those disbursements approved by the Board are made.

The payroll vendor relies on the outsourced bookkeeper to provide information regarding hours worked and rates of pay. Then, the payroll vendor processes the payroll, makes the direct deposits and issues checks. The outsourced bookkeeper reviews payroll reports for accuracy and performs other duties, such as making journal entries and preparing monthly bank reconciliations and Board reports. Although the outsourced bookkeeper provides some oversight by performing bank reconciliations to verify that all disbursements are recorded in the Supervisor's records and reviewing payroll reports for errors, the Supervisor does not provide oversight for the outsourced bookkeeper's work, such as reviewing bank reconciliations and cleared check images. Furthermore, the Supervisor should not delegate his oversight responsibilities to an outside party. In addition,

the payroll vendor electronically affixes the Supervisor's signature to the payroll checks without the Supervisor's approval of payroll. Finally, the Board does not perform its required annual audit of the Supervisor's records, which adds to the lack of oversight for the Supervisor's disbursements.

The Supervisor informed us that he hired the bookkeeper and outsourced bookkeeper to segregate the disbursements process thinking that this addressed any weaknesses within the process; however, he failed to realize he still needed to provide oversight of their work.² Furthermore, although Town officials hired the payroll vendor to minimize the risks associated with reporting errors and potential penalties, the Supervisor allowed the payroll vendor to affix his signature to payroll checks and, therefore, did not maintain control over his signature by approving the payroll before it was processed. In addition, Board members told us that they thought their monthly audit and approval of claims was sufficient and did not understand that they still needed to perform an annual audit of the Supervisor's records. However, our office audited the Town in 2010 and advised the Board at that time of the need to perform an annual audit.

Because of the lack of oversight, we scanned bank statements to ensure there were no transactions that were atypical of a town and reviewed Board-approved abstracts to confirm that all check numbers were accounted for. We also traced 185 canceled check images totaling over \$708,800 to Board-approved claims vouchers and abstracts to ensure that only Board-approved, legitimate disbursements were made. Additionally, we reviewed 10 employees' gross pay amounts to determine if they were paid at rates the Board intended³ and six hourly employees' timesheets to ensure they were paid for actual hours worked.

Although our testing did not reveal any improper disbursements or unreasonable payroll payments, without proper oversight by the Supervisor and Board, there remains a risk that disbursements could be made for inappropriate purposes. In addition, the Town is paying the two vendors involved in the disbursements process over \$16,000 a year. The Town may be able to realize cost savings if some or all of the duties assigned to the two vendors were performed by the bookkeeper and the Supervisor performed an appropriate level of oversight to compensate for the lack of segregation of duties.

² After we provided training to the Supervisor while on site, he began reviewing bank reconciliations and canceled check images.

³ Per union contract or Board-adopted budget

Recommendations

The Supervisor should:

1. Continue to review bank reconciliations and canceled check images to verify that only Board-approved disbursements are made, including those disbursements made for payroll-related expenditures.
2. Approve payroll before checks are electronically signed and maintain control over his signature.
3. Perform a cost benefit analysis to determine if the bookkeeper should be performing disbursements duties currently performed by the two vendors.

The Board should:

4. Perform, or cause to be performed, the required annual audit of the Supervisor's records.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Town of Sidney
21 Liberty Street
Sidney, New York 13838
Ph. (607) 561-2334

November 12, 2015

Office of the State Comptroller
Division of Local Government and School Accountability
PSU- CAP Submission
110 State Street, 12th Floor
Albany, N.Y. 12236

Dear Sir/ Madam:

The Audit Report of the Town of Sidney Supervisor's Disbursements covering the period of January 1, 2014 through June 25 has been carefully reviewed by the Town Supervisor, and the following observations are offered.

Upon accepting the responsibility of Town Supervisor in January of 2014, the decision of whether to immediately implement a new bookkeeping arrangement, or continue the arrangement already in place became one of my first decisions. Because of my newness to this role, I decided to continue the arrangement already in place to allow me time to become familiar with the specific intricacies of Town government accounting and fiscal management. Therefore, most of the practices that have been commented on in this report were in place prior to my assuming this role.

The two exceptions to that are as follows;

1. I moved the arrangement for signing vouchers for myself and the Town Board members from the half hour preceding the Board meeting to times of the Board members convenience the week of the Town Meeting to allow Board members to review the vouchers in more detail without a time constraint.
2. Other than payroll checks, either I or the Deputy Supervisor have personally signed each check after confirmed voucher endorsement by all Council members. It is my understanding that this was not the practice prior to my acceptance of this responsibility.

Reference has been made in this audit to an audit conducted in 2010. Not having had the opportunity to see that audit prior to experiencing and responding to this one, I cannot comment on whether those procedures referred to as a "lack of supervision" on the part of the Supervisor and Council members were addressed in the earlier audit and not followed through on, or if they are more recent in origin due to the turnover of personnel in the roles of Supervisor, Council members and bookkeeping staff during the past 4 years.

Regardless of that, I certainly concur with the concluding recommendations of this Audit, and am already following through with the direction and counsel of the State Auditor namely that;

1. I am now reviewing, dating and initialing copies of cancelled checks and bank reconciliations for each Town account on a monthly basis.
2. I am personally reviewing, signing and initialing each payroll prior to its submission to the Payroll vendor.
3. I am currently reviewing our present bookkeeping arrangement with a view towards increasing cost effectiveness, while maintaining quality of service, and anticipate having an updated arrangement in place by early in 2016.
4. I will arrange for an Audit of the Supervisor's oversight of fiscal matters by Town Council members in accordance with the manual "Fiscal Oversight Responsibilities of the Governing Board"

I understand that this communication to your office can be regarded both as the Audit response as well as the Corrective Action Plan. I would appreciate it if this response could serve as both.

In conclusion, I would like to express my appreciation to the Regional representatives of the Comptroller's office. Their comments and counsel to us have been most helpful. We shall be grateful for any future support that can be provided in assisting us in the enhancement of the Town supervisory role.

May ~~God~~ bless you,

Gene Pigford, Supervisor
Town of Sidney

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our objective was to assess the Board and Supervisor's oversight of the disbursement process in the Supervisor's office. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed Board minutes and conducted interviews with Board members, the Supervisor, the bookkeeper and the outsourced bookkeeper to gain an understanding of who performs the duties in the disbursement process and who provides oversight of those duties.
- We scanned all bank statements from January 2014 through May 2015⁴ to ensure there were no transactions atypical of a town (i.e., cash withdrawals or non-payroll related wires). We also scanned all canceled check images that cleared the bank for the same time period to determine if the Supervisor manually signed all non-payroll disbursement checks. Additionally we reviewed all check numbers on Board-approved abstracts for the scope period to ensure all check numbers were accounted for.
- We traced 185 canceled check images totaling \$708,891 (all the cleared check images from February 2014, June 2014 and June in 2015) to the Board-approved claim vouchers and abstracts to ensure that only Board-approved, legitimate disbursements were made. We randomly selected the above three months to perform our testing.
- We obtained the second payroll report for April of 2015 and selected one employee from each class of employee (we selected five employees out of the 10 that had Board-adopted rates) where rates were either established by the adopted budget or union contract and traced salary amounts paid to Board-approved rates (i.e., union contracts or Board-adopted budgets) to determine if employees were paid at adopted rates.
- We traced total salary amounts paid to all five employees without established pay rates to Board adopted budgets for 2014 to determine if amounts paid were reasonable based on the budgeted salary amounts given to their departments.
- We also selected all six hourly employees without Board-adopted hourly rates and selected one hourly employee represented by union contract and traced hours paid to time sheets to determine if hourly employees were paid for hours worked. We randomly selected the above month to perform our testing.
- We obtained all Board-approved claim vouchers for the two vendors that provided bookkeeping and payroll services to the Town and calculated the total amount paid. We also projected the amount to be paid through the end of 2015.

⁴ May 2015 was last completed month in our audit period.

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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