



Town of West Union

Board Oversight and Cash Receipts and Disbursements

Report of Examination

Period Covered:

January 1, 2011 — June 26, 2014

2014M-307



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 West Union, 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 West Union (Town) is located in Steuben County and had a population of 312 as of the 2010 Census. The Town provides various services to its residents, including highway maintenance and improvements, snow removal, public water supply, street lighting and general government support. The Town's 2014 budgeted appropriations for all funds totaled \$540,615, 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. He also acts as budget officer. To assist the Supervisor in his accounting duties, the Board annually appoints a bookkeeper. Other officials involved in collecting and disbursing Town moneys are an elected Town Clerk (Clerk), the Tax Collector, the Code Enforcement Officer and the Town Justice.

Scope and Objective

The objective of our audit was to review the Board's oversight and the Town's various cash receipts and disbursements processes for the period January 1, 2011 through June 26, 2014. We extended the scope of our audit back to January 1, 2010 for our review of the Clerk's cash receipts and disbursements. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of the Town's financial operations?
- Are cash receipts and disbursements accurately recorded and reported?

Audit Results

We found that the Board has not adopted necessary policies and procedures to effectively oversee the Town's operations. As a result, the Town has accumulated financial resources in excess of its current needs. Specifically, the general fund had available fund balance that was more than 90 percent of the ensuing years' budgets for each of the fiscal years 2011 through 2013. The highway fund had available fund balance that was more than 50 percent of the ensuing years' budgets during the same time period. The Board accumulated these excessive balances instead of using them to benefit the taxpayers.

The Board did not audit any claims from the general fund, water district fund and street lighting fund. As a result, we found that eight disbursements totaling \$13,563 were lacking supporting documentation to verify they were appropriate purchases. Finally, the Board did not audit the books and records of any of the Town officers and employees that handled cash. Because of these weaknesses, the Board cannot ensure that resources are properly safeguarded and used only for necessary and authorized Town purposes.

The Town's lack of policies and procedures also allowed deficiencies to occur without detection in cash receipts and disbursements. For example, the Supervisor did not deposit six receipts totaling \$10,983 in a timely manner and did not maintain accurate financial records. The Clerk did not issue duplicate receipts for collections and also maintained inaccurate financial records. The Tax Collector did not record moneys when received and did not remit payments to the appropriate agencies in a timely manner. We found similar issues with the Code Enforcement Officer's records. The Justice Court was the only area in which we found that moneys were accurately recorded and reported.

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. Town officials generally agreed with our findings and recommendations and indicated they plan to initiate corrective action. Appendix B includes our comments on the Town officials' response.

Introduction

Background

The Town of West Union (Town) is located in Steuben County (County) and had a population of 312 as of the 2010 Census. The Town provides various services to its residents, including highway maintenance and improvements, snow removal, public water supply, street lighting and general government support. The Town's 2014 budgeted appropriations for all funds totaled \$540,615, 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 Supervisor is also the Town's budget officer 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.

An elected Town Clerk (Clerk) is responsible for collecting moneys for conservation, dog and marriage licenses, birth and death certificates, fees for certified copies and landfill tickets. The Clerk must properly record all moneys received and remit these moneys to the appropriate entities, including the Supervisor. The Town's Tax Collector is responsible for collecting, accurately recording, depositing and remitting paid property taxes to the Supervisor and County in a timely manner, imposing penalties on late payments and recording interest earned on the deposit of these moneys. The Tax Collector is authorized and directed by the tax warrant to collect the taxes on the tax roll. Town and County real property taxes on the tax roll total approximately \$766,000 annually. The Code Enforcement Officer is appointed by the Board and is responsible for issuing building permits, receiving applicable fees and turning over the moneys to the Town 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 money.

Objective

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

- Did the Board provide adequate oversight of the Town's financial operations?
- Are cash receipts and disbursements accurately recorded and reported?

Scope and Methodology

We examined the Board's oversight of Town assets and the various cash receipts and disbursements processes for the period January 1, 2011 through June 26, 2014. We extended the scope of our audit back to January 1, 2010 for our review of the Clerk's cash receipts and disbursements.

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 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. Town officials generally agreed with our findings and recommendations and indicated they plan to initiate corrective action. Appendix B includes our comments on the Town officials' response.

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 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. The Board also must thoroughly audit and approve all claims in a timely manner. 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. Specifically, the Board did not adopt structurally balanced budgets. As a result, in each of the fiscal years 2011 through 2013, the general fund had available fund balance that was more than 90 percent of the ensuing year's budget and the highway fund had available fund balance that was more than 50 percent of the ensuing year's budget. These fund balances are excessive. The Board did not audit any claims from the general fund, water district or street lighting fund. As a result, we found that eight disbursements totaling \$13,563 were lacking supporting documentation to determine if they were appropriate Town expenditures. Finally, the Board did not audit the books and records of any of the Town officers and employees that handled cash. Because of these weaknesses, the Board cannot ensure that resources are properly safeguarded and used only for necessary and authorized Town purposes.

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. Such policies and procedures will help ensure that the Board adopts budgets that include realistic estimates of revenues and expenditures to sufficiently fund operations and that use surplus funds as a funding source, when appropriate. If the Board follows these practices, it will raise only the necessary amounts of real property taxes.

The Board did not adopt detailed policies and procedures for its budget process to ensure the development of the most accurate and realistic annual budgets possible. Without a formalized budget process, 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 operating needs.

The Board has relied on the Supervisor to develop the budgets and does not receive an estimate of the fund balance that will be available to appropriate at year-end to reduce the ensuing year's real property taxes. The tentative budget the Board receives from the Supervisor does not include actual revenues and expenditures; instead, the Board relies on prior-year budgeted numbers when developing budget estimates. Therefore, if a revenue or expenditure was not accurately estimated in prior-year budgets, it is unlikely to be accurate in the ensuing year. In addition, the Board has not developed a long-term financial plan for the Town, which hinders forecasting future results and utilizing fund balance or reserves to fund operations.

As a result of poor budgeting, the Board has underestimated revenues; in particular, sales tax was underestimated between 6 percent and 17 percent, which has caused excessive fund balance. From fiscal years 2011 through 2013, fund balance available for use in the general and highway funds has either increased significantly or remained at a high percentage of the ensuing year's budget, as detailed in Figure 1.

Figure 1: Fund Balance by Fund				
General				
	2011	2012	2013	2014 Estimate ^a
Fund Balance Available for Use	\$149,742	\$170,913	\$185,659	\$201,296
Ensuing Year's Budget	\$165,980	\$177,928	\$178,675	\$198,474
Percentage of Ensuing Year's Budget	90%	96%	104%	101%
Highway				
	2011	2012	2013	2014 Estimate ^a
Fund Balance Available for Use	\$197,675	\$159,023	\$162,000	\$195,096
Ensuing Year's Budget	\$388,136	\$298,470	\$307,265	\$361,407
Percentage of Ensuing Year's Budget	51%	53%	53%	54%
^a Estimates for 2014 include unaudited actual revenue and expenditures through December 10, 2014 and estimates for the remainder of the year provided by the bookkeeper and discussions with officials.				

We reviewed the Town's 2014 general fund budget and estimated results of operations through December 10, 2014. We determined that underestimated sales tax revenue of \$20,493 accounts for the increase in estimated general fund balance. Although we brought these sales tax budgeting issues to Town officials' attention prior to

them adopting the 2015 budget, Town officials did not increase the 2015 budget for sales tax. Therefore, the general fund will likely have an increase in fund balance in 2015.

The Town's highway fund's estimated results of operations increased for 2014 because Consolidated Local Street and Highway Improvement Program (CHIPS) budgeted revenue was underestimated by \$16,000. Town officials increased the 2015 budget for CHIPS revenue to properly reflect the estimated revenue expected; therefore, highway fund balance should remain at the 2014 level.

The Board's budgeting practices have resulted in the accumulation of excessive fund balances in the general and highway funds that could be better utilized for the benefit of taxpayers. The Board can appropriate the excess funds to reduce taxes and/or establish reserves.

Claims Processing

The Board is responsible for auditing claims and establishing internal controls which help ensure that each claim contains sufficient supporting documentation to determine compliance with policies and statutory requirements and that the amount claimed represents a legal obligation and proper charge against the Town. With few exceptions,¹ Town Law requires the Board to audit and approve all claims before the Supervisor can disburse payment. The Clerk must present sequentially numbered claims/vouchers to the Board for audit and approval. All claims must be in writing, properly itemized and supported, include evidence of the approval of the Town official whose action gave rise to the claim and include evidence that the goods or services have been received. Board members must thoroughly audit the claims and adopt a resolution authorizing the payment of those claims that were approved. The Clerk must then present a detailed claims abstract to the Supervisor directing him to pay the claims listed. To provide an independent source of claims audited and approved, the Clerk should enter in the minutes the total dollar amounts and the sequential number of the claims approved for payment by the Board.

The Board has not established an effective claims auditing process and has not adopted policies and procedures regarding the audit of claims. Although the Clerk is responsible for preparing all vouchers/claims for the Board's audit and approval, she only prepared and provided claims for the highway fund. The Clerk did not prepare vouchers for the general, lighting district or water district funds. The Supervisor prepared and presented to the Board for approval an abstract for

¹ For example, the Board can authorize, by resolution, the payment of certain claims in advance of audit, including those for public utility services, postage and freight and express charges. However, these claims must be presented to the Board for audit after payment.

the general fund that listed claims he already paid. Because the Supervisor paid claims prior to the Board's audit and approval, key internal controls of independent review have been circumvented.

Because of the flawed claims audit process, we randomly selected 52 disbursements² totaling \$29,455 that were listed on the April and August 2013 bank statements for further review. We found that eight³ of these disbursements totaling \$13,563 did not have supporting documentation on file. For example, the Town paid \$4,075 for work performed on the Justice's office but did not have documentation to support what was done. However, all 52 disbursements appear to be for appropriate Town purposes.

Because the Board failed to properly audit all claims prior to payment, there is an increased risk that the Town could pay for goods or services that have not been received, are not proper Town expenses or do not comply with statutory requirements.

Payroll Processing

It is important that the Board adopt a payroll policy to ensure that payroll is disbursed in accordance with all legal requirements and to ensure that employees receive only the salaries and benefits to which they are entitled. A town may engage a third party vendor (TPV) to perform certain functions in connection with payroll preparation. However, a town may not delegate to a TPV duties such as having custody of and disbursing town funds.

The Board did not adopt a payroll policy; as a result, the Board's expectations for handling payroll were not communicated to Town officials and employees. In addition, the Board allowed certain payroll functions required by statute to be performed by the Supervisor to be delegated to and performed by a TPV hired by the Town to provide payroll services during our audit period. The TPV disbursed payroll by accessing the Town's bank account and withdrawing enough funds to cover payroll, payroll taxes and fees for its services. Although GML allows a town to contract with a bank or trust company to deposit and disburse the payroll, the TPV that the Town contracted with is not a bank or trust company.

The Supervisor stated that the TPV was processing payroll in 2010 when he became Supervisor and he was unable to provide us with a contract. As a result, the Supervisor was unsure of what services the TPV provided or the associated fees for these services that the

² The 52 claims were comprised of 24 from the highway fund, 21 from the general fund, five from the water district fund and two from the street lighting fund.

³ Four were general fund claims and four were highway fund claims.

TPV withdrew from the Town's bank account. The TPV withdrew \$174,041 in 2013; this amount included \$2,291 for payroll processing fees.

By allowing the TPV direct access to the Town's bank account to withdraw its fee, the Board's authority to audit all claims against the Town before such claims can be paid is circumvented. Furthermore, the Town has no recourse for poor service. For example, during our review of W-2s and Board-approved salaries, we identified an error that occurred in July 2013 that the TPV still had not corrected over a year later. The error occurred on July 13, 2013, when the TPV incorrectly paid a Board member. The Supervisor voided the check and notified the TPV of the error the following week. Instead of refunding the money to the Town, the TPV notified the Supervisor that the check was outstanding each month. On January 11, 2014, the Supervisor faxed a notice to the TPV stating that he previously sent two notices to them to void this check. Two days later, the TPV credited the Town's bank account for the amount of the outstanding check because it was stale. However, this did not resolve the problem because the Board member's 2013 W-2 included the amount of the voided check. Therefore, the Town and Board member paid payroll taxes that were not necessary.

Because the Board did not develop policies and procedures in regards to payroll processing and the Supervisor did not provide adequate oversight, errors occurred that went uncorrected. While the monetary amounts of these errors were immaterial, if the Board does not improve its controls over the payroll process, the Town's funds remain at risk of being mismanaged or misappropriated.

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 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 during the year. Specifically, the Board did not audit the Clerk, Code Enforcement Officer, Supervisor, Justice or Tax Collector. Without an annual audit, the Board is at risk of failing to detect and correct errors, irregularities or fraudulent activity in a timely manner. (See the 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.⁴
2. Adopt budgets based on prior years' actual revenues and expenditures.⁵
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. Audit all claims prior to payment, except where allowed by statute or resolution.⁶
5. Obtain and review the current contract for payroll services with the Town's legal counsel and make amendments, as appropriate, so that the TPV does not exercise the custodial and disbursing functions vested by statute in the Supervisor.
6. Annually audit or contract for an audit of the books and records of all officials and employees that receive and disburse Town funds.⁷

⁴ Guidance is available in the OSC publication entitled *Fiscal Oversight Responsibilities of the Governing Board* https://www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf

⁵ Guidance is available in the OSC publication entitled *Understanding the Budget Process* <https://www.osc.state.ny.us/localgov/pubs/lmgm/budgetprocess.pdf>

⁶ Guidance is available in the OSC publication entitled *Improving the Effectiveness of Your Claims Auditing Process* <https://www.osc.state.ny.us/localgov/pubs/lmgm/claimsauditing.pdf>

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

The Clerk should:

7. Sequentially number claims from all funds. All claims, except where exempted by statute, should be presented to the Board for audit.
8. Prepare monthly abstracts for all claims (i.e., a list of all claims) specifying the numbers of the claims, the names of the claimants, the amounts allowed and the funds and appropriation accounts to be charged.
9. Enter in the minutes the total dollar amounts and the sequential numbers of the claims approved for payment by the Board.

The Supervisor should:

10. Only pay claims listed on the abstract provided by the Clerk, except where allowed by statute or resolution.

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 recipients.

The absence of Board-adopted cash receipts and disbursements policies and procedures increased the risk of fraud and theft of Town assets. We found that the Supervisor's receipts were generally recorded properly and intact;⁸ however, they were not deposited in a timely manner. In addition, although the Supervisor's disbursements were recorded properly, they were not reported accurately. The Clerk did not routinely issue duplicate receipts for every transaction where no evidence of receipt was available or record daily cash receipts in her check register. She also did not remit fees to the various agencies properly. The previous Tax Collector maintained adequate records for receipts and disbursements; however, we found that she did not deposit receipts in a timely manner and did not remit payment to the Supervisor on a timely basis. The current Tax Collector did not keep adequate records to support collections of real property taxes or penalties and interest. We found that the Code Enforcement Officer did not issue duplicate receipts to home owners for building permit payments, which increases the risk that moneys could be received and not remitted to the Clerk. However, we did find that the Justice's receipts and disbursements were accurately recorded and reported.

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.⁹ The Supervisor is also responsible for paying all claims listed on any warrant certified by the Clerk that the Board has audited and approved for payment, as well as paying payroll-related expenditures. A TPV prepares the Town's payroll disbursements based on information submitted by the Supervisor. Finally, the Supervisor, with the

⁸ Moneys deposited in the same amount and form (cash or check) in which they were received

⁹ Town Law requires that money received should be deposited in a Town bank account within 10 days. However, daily deposits should be made if material amounts have been received.

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.

We reviewed 16 receipts totaling \$300,109 that were listed on five bank statements and found that the Supervisor's bookkeeper generally recorded receipts properly. We compared the check dates of the 16 receipts to the dates deposited and found that six totaling \$10,983 were deposited between seven and 39 days late, but all were intact.

The Supervisor did not provide the Clerk any general fund, water or lighting district fund claims so that she could prepare vouchers for Board approval. Instead, the Supervisor paid bills on a weekly basis, then prepared an abstract of paid general fund claims for the Board's approval. The Supervisor did not include water and lighting district claims on an abstract (see the Claims Processing section.) We compared the disbursements listed on the bank statement totaling \$29,455 for April and August 2013 to the abstracts and accounting records to determine if they were recorded properly. We found that the Supervisor's general fund abstract did not list five claims totaling \$5,833, but all cash disbursements listed on the bank statements were properly recorded.

When comparing the Supervisor's records to the annual update documents prepared by the bookkeeper, we found that the recorded revenues and expenditures did not match the report in total because the bookkeeper improperly reported some revenues netted against corresponding expenditures. For example, refunds from insurance proceeds were netted against insurance expenditures. In addition, the bookkeeper inappropriately reported the balance of a certificate of deposit for the Capital Reserve, the Unemployment Reserve and a general fund savings into the Tax Stabilization reserve. As a result, the Town's unassigned fund balance was understated and reserves were overstated by \$121,503. These inaccurate reports prevent the Board from knowing the Town's true financial position.

The Supervisor also continued to maintain a large unexplained balance in the trust and agency bank account (T&A); its balance on May 31, 2014 totaled \$7,177. Because the T&A account should essentially be zeroed out each month and the TPV has access to this account, we reviewed all deposits and disbursements from the bank account for the period January 1, 2013 through June 1, 2014. We found that the large balance in this account has been carried forward from previous years. However, the balance decreased by \$1,424 during our audit period because of errors made by the Supervisor and bookkeeper when estimating the amount to transfer to this bank account to cover

the associated payroll, payroll taxes and TPV fees. The amounts transferred into and paid out of the T&A account should be based on payroll withholdings and the employer share of payroll taxes and should not be based on estimates. During our fieldwork, we showed the bookkeeper how to determine the appropriate amounts to transfer.

Because the Supervisor did not monitor the work performed by others, the T&A account contained excess funds that the TPV had access to, which put these funds at risk of being misappropriated. In addition, errors occurred and went undetected and uncorrected because the Supervisor transferred money for the TPV to withdraw based on incorrect internal calculations instead of transferring the appropriate amounts.

Town Clerk

The Clerk is responsible for receiving, recording, depositing, disbursing, reporting and remitting all moneys collected for various fees – such as sporting, dog and marriage licenses, building permits and death certificates – in an accurate and timely manner. The Clerk is required to issue duplicate receipts¹⁰ to payees, record the form of payment (i.e., cash or check) for every transaction where no other 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. Town Law requires that Clerk receipts be deposited within three business days after the total exceeds \$250. Good business practices dictate that all receipts which do not exceed \$250 be deposited on a weekly basis to reduce the risk of loss. Generally, all fees received by the Clerk are the property of the Town, County or State and must be promptly remitted to the appropriate agency each month. Town Law requires the Clerk to remit the Town's portion of receipts to the Supervisor by the 15th of the month following receipt. To remit the fees to the appropriate agency, the Clerk must maintain complete and accurate accounting records, ensure that all moneys received are safeguarded and promptly deposit receipts into the Clerk's bank accounts.

The Clerk did not routinely issue a duplicate receipt for each transaction where no evidence of receipt was available or record daily cash receipts in her check register. The Clerk maintained evidence of transactions for marriage and dog licenses but only occasionally issued receipts for other Town-related transactions. In addition, the Clerk did not have receipts on file for the sporting licenses issued on behalf of the New York State Department of Environmental Conservation (DEC). The Clerk stated that the DEC-provided printer was broken so she could not print the individual sales and daily sales

¹⁰ One copy is given to the person remitting payment and the other is retained by the Town.

receipts. When she contacted DEC, she stated that she was told the individual sales receipts and daily reports would be available on the computer. However, at the end of the 2013 season, DEC changed the online reporting system to a web-based application, and prior reports were not available from the computer terminal that the Clerk had used. Therefore, she had no support for DEC receipts from January 1, 2012 through December 31, 2013. Without consistently issued duplicate receipts or a chronological record of cash collections, Town officials cannot trace transactions processed by the Clerk to bank deposits or verify her monthly reports for accuracy.

We obtained bank deposit compositions for all deposits, totaling \$17,566, listed on the Clerk's bank statements for the period January 1, 2010 through March 11, 2014 to perform an accountability analysis and identified minor recording and reporting errors. We determined the Clerk generally deposited cash receipts in a timely manner as required by Town Law.

Tax Collector

The Tax Collector collects real property taxes from January through March 31 of each year and then the County collects overdue taxes. The Tax Collector is responsible for maintaining accurate and complete records of every tax payment received, including interest and penalties. The Tax Collector should document all payments received and maintain a detailed record of each transaction on a daily basis. The Tax Collector should record tax payments separate from interest and penalties and summarize all tax payments received on a daily basis. The Tax Collector should ensure that daily cash receipts correspond to the total amount deposited for that day and document the date she made the payment. Furthermore, the Tax Collector is required by Town Law to deposit all moneys collected within 24 hours of receipt, remit all deposits to the Supervisor at least once each week until the Town's portion of the tax levy is satisfied and remit all residual collections to the County Treasurer by the 15th of each month following receipt.

During our audit period, there were two elected Tax Collectors.¹¹ The current Tax Collector did not keep adequate records to support collections of real property taxes or penalties and interest. She did not maintain a daily record of receipts, and her log of penalties and interest was inaccurate. As a result, we were unable to determine if collections were deposited in a timely manner. Because the current Tax Collector only recorded payments in the computerized accounting system when she had time, errors occurred such as accepting a duplicate payment totaling \$107, and she did not have an accurate account of the amount

¹¹ The previous Tax Collector served during 2013 and the current Tax Collector was elected to serve a two-year term from January 1, 2014 through December 31, 2015.

of taxes which was collected and the balances remaining. As a result, she had to request an extension from the County through April 9, 2014 for the collection of taxes remaining unpaid. These errors occurred and went undetected because the current Tax Collector does not maintain adequate records. Due to the limited records, the Board cannot ensure that all cash received has been recorded and deposited.

In addition, neither Tax Collector remitted taxes to the Supervisor each week until the Town's portion of the tax levy was satisfied. Instead, the previous Tax Collector remitted fees to the Supervisor once a month, and the current Tax Collector waited until she had accumulated the Town's portion of the tax warrant, which she paid on February 20, 2014. Both Tax Collectors stated that they were unaware of the deposit and remittance requirements. Also, the amount paid to the Supervisor for 2014 was \$1,000 short because the current Tax Collector remitted an amount to the Supervisor based on a note from his bookkeeper instead of reviewing the tax warrant. The error went unnoticed until March 2014, when the Steuben County Treasurer's office notified the current Tax Collector, at which time she paid an additional \$1,000 to the Supervisor.

Code Enforcement Officer

The Code Enforcement Officer (CEO) is responsible for issuing building permits and collecting the associated fees based on the Town's Department of Fire Prevention and Building Code Enforcement fee schedule. The CEO must then remit the fees to the Town Clerk for deposit. 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 should be issued to ensure that all building permits are accounted for.

During our audit period, the CEO issued 18 building permits totaling \$755, which was all turned over to the Town Clerk for deposit. The CEO also gave copies of these permits to the tax assessor so that the improvements could be added to the assessment roll. However, we found that the CEO did not issue duplicate receipts to the home owners for payment of building permits. In addition, instead of issuing pre-numbered building permits, the CEO manually numbered the permits. Because the building permits are not pre-numbered and duplicate receipts are not issued, there is an increased risk that moneys will be received and not remitted to the Clerk.

Justice

The Justice is responsible for adjudicating cases brought before her 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 and the New York State Department of Motor Vehicles, when applicable.

We found that the Justice did issue duplicate receipts for all court-related financial activities and maintained complete and accurate accounting records. All moneys collected were also deposited in a timely manner and intact.

Recommendations

The Supervisor should:

11. Develop cash receipts and disbursements procedures that adequately establish controls to safeguard receipts and ensure disbursements are proper and presented to the Board for approval before payment, except where allowed by statute.
12. Oversee the work that the third-party payroll processing vendor is performing on his behalf, and he should make all disbursements of Town moneys.
13. Maintain accurate and up-to-date accounting records and prepare accurate financial reports to provide the Board and the public with information needed to monitor the Town's financial affairs, including maintaining separate accounting for reserves.

The Supervisor, Clerk, Tax Collector and Code Enforcement Officer should:

14. Issue duplicate receipts when no other evidence of receipts is available.

The Clerk should:

15. 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.

The Tax Collector should:

16. Adopt controls to ensure the following:

- Each payment received is recorded and only one payment is accepted.
- Collections are remitted to the Supervisor in accordance with statute.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

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

Town Of West Union

1328 State Route 248

Rexville NY 14877

Randy Heckman

Town Supervisor

Shirley McCaffrey

Town Clerk

To; Edward Grant; Chief Examiner

Division of Local Government and School Accountability

From; Randy Heckman Town Supervisor

Date; 1/17/15

Dear; Mr. Grant;

This is the Response and CAP as requested. I have enclosed copies of the 2015 Policies, meeting minutes addressing the internal audits and the resolution creating the reserve funds. Should you require further back-up to support the CAP going forward please do not hesitate to contact myself.

See Note 1 Page 25

Sincerely

Randy Heckman

Town Supervisor

		Town Of West Union Response and CAP	1/5/2015	
	Audit Recommendations	Corrective Plan	Date of correction	Who is accountable
1	Adopt, review, update and enforce written policies and procedures required by law.	Adopt policy's at Reorganizational Meeting	1\8\15	Town Board
2	Adopt budgets based on prior years' actual revenues and expenditures	In creating the 2015 Budget we practiced this policy. We reviewed each cost to date item in 2014 cost and projected 2015 cost in the new budget.	1\1\15	Town Board
3	Reduce the surplus fund balance in the general and highway funds.	The Board is creating a Equipment Reserve and a Building Reserve for these funds. They are currently I a CD and will remain as such but "ear marked" for this purpose.	1\15\15	Town Board
4	Audit Claims prior to payment	Our new policy was adopted during our reorganizational meeting and dictated the only bills to be pre-paid are the utilities, payroll, healthcare and bills to County or State governments	1\8\15	Town Board
5	Review current Payroll Service	Currently we are using [REDACTED] however due to the issue where they have access to the Town's account this was explained that was not per State Laws. We are in the process of purchasing a new computer and software to be able to do our payroll in house.	1\1\15	Town Supervisor
6	Town Board did not do internal audits of checking accounts.	The Board has agreed to do an internal audit for all accounts. They also want to look into hiring a outside firm to do an in-depth review of accounts they feel need greater oversight.	1\15\15	Town Board
7	Sequentially numbering all Claims for payment	This practice has been in place sine Nov 14 and is being improved on per the policy's adapted in the 1\8\15 reorganizational Meeting	1\8\15	Town Clerk

See
Note 2
Page 25

See
Note 3
Page 25

8	Prepare Monthly claims	This has been corrected in the policy's adapted in our reorganizational meeting 1\8\15	1\8\15	Town Clerk
9	Enter into minutes the dollar amounts and the sequential number of the claims being approved	This practice has been in place since Nov 14 and is being improved on per the policy's adapted in the 1\8\15 reorganizational Meeting	1\8\15	Town Clerk
10	Pay only claims listed on the abstract provided by the clerk	This practice has been in place since Nov 14 and is being improved on per the policy's adapted in the 1\8\15 reorganizational Meeting	1\8\15	Town Supervisor
11	Develop a cash disbursement policy the allows the board to view all disbursements except where allowed by board in 2015 policy's	All Receipts are to be done in a dual fashion, and all disbursements are to be approved prior to payment except where spelled out in 2015 policy's adapted 1\8\15	1\8\15	Town Supervisor
12	Oversee payroll by Third Party	See response to Item 5. We are in the process of doing the payroll in house. We should be up to speed by 3\1\15 Payroll	1\15\15	Town Supervisor
13	Maintain Accurate accounting records and separate reserve accounts	This will be resolved in the 1\15\15 meeting with a resolution the we establish the reserve accounts per State Laws. Secondly we intend to do audits monthly and or quarterly during our monthly meeting as time allows.	1\15\15	Town Board
14	Issue Duplicate Receipts at all time when taking in monies for any reason	We have established this practice and is being review per internal audits	1\15\15	Town Board
15	Adopt policy's to ensure collections are deposited, monthly bank reconciliations are prepared, and complete records are maintained	Clerk should prepare a written plan to present to the board to ensure this will be observed	1\15\15	Town Clerk
16	Adopt controls that will ensure Each payment is received and that only one payment is accepted and collections are remitted to Supervisor	Tax Collector needs to submit a write plan to the tow board for review and adoption	1\15\15	Tax Collector

See
Note 4
Page 25

A	Auditors identified the Town Supervisor and Tax Collector was not depositing Checks per state law	Supervisor will deposit checks received weekly. The tax collector will deposit payments into the bank as per NYS law.	1\15\15	Tax Collector
B	Trust and Agency account	As part of our creating our payroll in-house we intend to create a new Trust and Agency. This will allow us to keep a minor balance and only the Town Supervisor and Deputy supervisor will have access	1\15\15	Town Supervisor

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

As the Town officials' response and corrective action plan included sufficient detail to support their intentions, we did not include their referenced attachments as a part of the final report.

Note 2

Although the Board adopted a policy that allowed for the prepayment of certain disbursements, it also must annually adopt a resolution allowing for such prepayment.

Note 3

The Board must complete an annual audit of the books and records of all officials and employees that receive and disburse Town funds, not just checking accounts.

Note 4

While creating reserve accounts is a positive step toward documenting the Board's intentions for fund balance, the creation of reserves does not correct the Supervisor's inaccurate records or reports.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Board members and Town officials regarding budgeting practices and policies. We compared the general fund and highway fund budgeted revenue and appropriations to actual operating results for fiscal years 2011 through 2013. We estimated fiscal year 2014 operations by reviewing actual 2014 operations through December 10, 2014, reviewing prior year data and having discussions with the bookkeeper and other Town officials. We also compared actual and estimated operating results to the ensuing years' budgets for fiscal years 2011 through 2014.
- We reviewed the Town's 2015 budget to determine if the estimates for budgeted sales tax revenue and CHIPS revenue was increased.
- We interviewed Board members and Town officials and reviewed Board minutes to gain an understanding of the Town's operations and departmental processes and procedures.
- We randomly selected April and August 2013 from the months available during the audit period and reviewed both the bank statements and abstracts from the Board minutes during these two months because we were aware the Board did not review the general fund claims, per our discussion with the Supervisor. From these two months, we reviewed 52 claims totaling \$29,455 for adequate supporting documentation, Board approval and Board review of claims. We also traced the 52 claims to the abstract to ensure the accuracy of the vendors and amounts.
- We selected all 12 employees/officials and traced their 2013 W-2s to Board-approved salaries.
- We randomly selected five payrolls from the January 3, 2013 through June 5, 2014 payroll check dates. We reviewed January 17, 2013, April 11, 2013, December 5, 2013, January 30, 2014 and April 10, 2014 for the machine equipment operators. We then reviewed those payrolls' time sheets for those paycheck periods to determine the number of hours worked. We calculated the amount of gross pay based on hourly rates in the collective bargaining agreement and the hours from timesheets. We determined the difference between the calculated amount and the amount paid per payroll reports generated by the third-party payroll processing vendor.
- We obtained deposit compositions for the Clerk for the period January 1, 2010 through March 11, 2014. We traced all moneys from the composites to supporting documentation and to the Clerk's monthly reports to determine if all moneys deposited were reported.
- We obtained deposit compositions for the Tax Collector for the period January 1, 2014 through April 9, 2014. We also obtained a report of all receipts from the Tax Collector's program. We

traced all copies of checks to reports to ensure that the Tax Collector recorded accurately. We also reviewed disbursements made by the Tax Collector to the Supervisor for timeliness and accuracy.

- We reviewed the Trust and Agency bank account activity for the period January 1, 2013 through June 1, 2014 to determine why the bank account did not have a zero balance.
- We performed cash counts for the Clerk and Justice.
- We reviewed Clerk, CEO, Justice and Tax Collector receipts to determine if fees were collected in accordance with the Board-approved rates and legal requirements.
- We reviewed the Justice's receipts and disbursements for the period January 1, 2013 through March 31, 2014.

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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