



Town of Edmeston

Supervisor's Records and Reports

Report of Examination

Period Covered:

January 1, 2015 – October 13, 2016

2017M-13



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2017

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 Edmeston, entitled Supervisor's Records and Reports. 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 Edmeston (Town) is located in Otsego County and serves about 1,800 residents. The Town provides various services to its residents, including highway maintenance, snow removal and general government support. The Town's 2017 budgeted appropriations are \$1.12 million, funded primarily with real property taxes, water rents and State aid.

An elected five-member Town Board (Board), which is composed of four Council members and the Town Supervisor (Supervisor), governs the Town. The Board is responsible for the general management and oversight of the Town's financial affairs. The Supervisor, who serves as the Town's chief executive officer and chief fiscal officer, is responsible for maintaining custody of all Town money, maintaining accounting records and preparing and filing financial reports. The Supervisor appointed a bookkeeper to assist him with his day-to-day accounting duties.

Objective

The objective of our audit was to assess the completeness and accuracy of the Town's records and reports. Our audit addressed the following related question:

- Did the Supervisor maintain complete and accurate accounting records and reports?

Scope and Methodology

We examined the Town's financial operations for the period January 1, 2015 through October 13, 2016. We extended our scope back to January 1, 2013 to analyze fund balance and forward to December 31, 2016 to project revenues, expenditures and fund balance.

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.

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 indicated they planned to take 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 Town Board to make this plan available for public review in the Town Clerk's office.

Supervisor's Records and Reports

The Town's financial records must be complete, accurate and up-to-date to be relevant and useful for managing Town operations. Towns account for money received and disbursed through separate funds. Each fund has a self-balancing set of accounts, segregated for the purpose of carrying on specific activities (e.g., general fund, highway fund). The Supervisor is responsible for performing basic accounting functions, including maintaining accounting records, providing monthly financial reports to the Board and filing an annual financial report (AFR) with the Office of the State Comptroller (OSC) and the Town Clerk.¹ The monthly financial reports should include balance sheet account balances (asset, liability and fund balance) and detailed year-to-date budget-to-actual comparisons of revenues and expenditures for each fund.

The Board is responsible for managing and overseeing the Town's overall fiscal affairs, safeguarding its resources and monitoring fund balance. To meet this responsibility, the Board, through an annual audit, must ensure that complete and accurate accounting records are maintained and periodic financial reports are provided so it can effectively carry out its fiscal oversight responsibilities. The Board is required to annually audit the records of Town officers and employees responsible for receiving and disbursing money.

The Supervisor did not maintain sufficient, complete and accurate accounting records. He maintained two accounting systems for the Town's funds that were not set up to properly account for transactions by individual funds, and the two systems did not match one another. Consequently, the Supervisor was precluded from preparing accurate periodic reports to the Board and from filing the past two AFRs. Furthermore, the Board has not conducted an annual audit of the Supervisor's records for several years. Without timely, up-to-date financial information, the Board was unable to adequately monitor and manage the Town's financial operations and was unaware that the Town had accumulated significant fund balances in its two major funds. We project that at the end of 2016, the highway and general fund balances would be higher than necessary. The general fund balance would be approximately \$975,000, or 372 percent of the ensuing year's budgeted appropriations, and the highway fund balance would be approximately \$786,000, or 117 percent of the ensuing year's budgeted appropriations.

¹ General Municipal Law requires the Supervisor to file an AFR with OSC and the Town Clerk within 60 days after the Town's fiscal year-end. An extension can be requested allowing the Town up to 120 days to file the report.

Financial Records

The Supervisor did not maintain sufficient, complete and accurate accounting records. He maintained two independent computerized accounting software programs, both of which are capable of recording and processing all necessary Town transactions on a fund basis. However, the Supervisor did not fully use the capabilities of either program and did not ensure that the activity between the two programs was reconciled.

The Supervisor and bookkeeper use one program to account for daily receipts and disbursements, including payroll. However, neither the Supervisor nor the bookkeeper set up this program to capture the information by fund. While the program provides an accurate recording of all receipt and disbursement activity, it does not provide the Board with an accounting of each fund's financial activity. Instead, the financial information for all seven funds² is commingled.

The bookkeeper enters the cash receipts and disbursements data from the first program into another program primarily to create monthly abstracts³ and to summarize the financial activity against the estimated revenues and appropriations in the adopted budget. However, no one reconciled the activity of the two programs. As a result, the second program did not include all financial information. For example, we compared the 2015 information from the two programs and found that the bookkeeper failed to record payroll tax payments totaling \$47,000 and receipts totaling approximately \$387,000 in the second program.

We used the Town's bank statements and made necessary adjustments for unrecorded transactions in the Town's accounting programs to project the Town's year-end fund balances for the general and highway funds. Based on our projections, from 2013 to 2016 the general fund balance increased by approximately \$344,000 (55 percent) and the highway fund balance increased by \$307,000 (64 percent). As a result, we estimated that at the end of 2016 the general fund balance would be approximately \$975,000, or 372 percent of the ensuing year's budgeted appropriations, and the highway fund balance would be approximately \$786,000, or 117 percent of the ensuing year's budgeted appropriations.

These deficiencies occurred because the Supervisor and bookkeeper lacked sufficient training on the capabilities of the individual software programs. We discussed the discrepancies with the Supervisor. He and the bookkeeper were not aware that either software could process all the necessary Town transactions. Moreover, had the Board conducted

² General, highway, water, special grant, street lighting, capital and private purpose trust funds

³ List of claims audited and approved by the Town Board

the required annual audits of the Supervisor's records, these errors and irregularities may have been detected sooner, creating the opportunity to correct the records.

Financial Reports

The Supervisor did not provide the Board with any monthly financial reports. As previously discussed, the condition of the accounting records would have precluded the production of accurate financial reports from either accounting program. Furthermore, the Board did not ensure the Supervisor prepared and filed AFRs with the Town Clerk and OSC within the established time frames. Specifically, as of December 2016, the Supervisor had not filed the 2014 or 2015 AFRs.

The Supervisor told us he was not aware that he should provide interim financial reports to the Board, and Board members did not request such reports. Furthermore, at the time of our audit, he had an unreconciled difference of \$13,000 in the 2014 accounting records that prohibits him from filing the 2014 and 2015 AFRs. Although Board members were unaware of the requirement to conduct an annual audit of the Supervisor's records, they were aware of the missed AFR filings and that the Supervisor was having trouble reconciling the information. Board members told us they were not familiar with the specific types of information that they should review on a periodic basis.

Using two different accounting software programs increases the risk of incomplete or inconsistent information. Ensuring all transactions are properly recorded will help facilitate the timely filing of the AFRs. After we brought this to the attention of Town officials, they have begun migrating their accounting records to one software program. We suggest they seek the advice of an individual with governmental accounting expertise for help in properly configuring the program.⁴

The Board's ability to make sound financial decisions is hampered when it does not receive complete, accurate and timely financial information. Had the Board been provided with monthly financial reports and performed the required annual audits, it would have discovered that the Town's accounting records were incomplete, that fund balance amounts were higher than necessary and that they had the opportunity to lower tax levies.

Recommendations

The Supervisor should:

1. Discontinue using two accounting programs to process the Town's financial transactions by combining the functions into one program.

⁴ During our exit conference with Town officials, we also offered to help them identify the source of the unreconciled \$13,000.

2. Pursue accounting software training and the numerous training resources available through OSC that can be accessed on our website at <http://www.osc.state.ny.us/localgov/training/index.htm>.
3. Provide monthly financial reports to the Board that include balance sheet account balances and detailed year-to-date budget-to-actual comparisons of revenues and expenditures for each fund as well as monthly bank reconciliations and bank statements.
4. Ensure that the Town's AFR is filed with OSC and the Town Clerk within the required time limits.

The Board should:

5. Conduct an annual audit of the Supervisor's records or engage an independent auditor to conduct the audit.
6. Review interim financial reports, including operating results compared to budgets and fund balance levels.
7. Pursue financial management training available through OSC that can be accessed on our website at <http://www.osc.state.ny.us/localgov/training/index.htm>.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Town Of Edmeston

P. O. Box 5133 (607) 965-9823
Edmeston, NY 13335

April 5, 2017

**Office of the State Comptroller
Todd Eames, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417**

Re: Audit Report 2017 M-013, Supervisors Records and Reports

Dear Mr. Eames:

This letter is the Town of Edmeston's official response to the above referenced audit report.

I agree with all the facts and recommendations presented in the Draft Audit Report and will be discussing the suggested corrective measures with the Town Board at our next regular meeting. Some of the recommendations are already in place which will correct many issues. A complete corrective action plan will be forwarded to your office in the near future.

The town thanks you and your staff for a very professional audit.

Sincerely,

**Russell Dutcher
Supervisor**

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials to gain an understanding of the Town's financial operations and processes, including interim financial reports and annual audits.
- We reviewed all bank statements for the audit period.
- We reviewed the two accounting programs to see whether they were set up properly to record and report financial information for each fund. We also compared the two programs to determine if there were variances between the financial activities recorded in each.
- We estimated the Town's fund balance levels from 2014 through 2016 to determine if the Town's fund balances levels were reasonable.

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 objectives.

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