



Town of Genesee

Disbursements

Report of Examination

Period Covered:

January 1, 2015 – December 2, 2016

2016M-433



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 Genesee, entitled 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 Genesee (Town) is located in Allegany County and has a population of approximately 1,700 residents. The Town is governed by the Town Board (Board) which is composed of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial affairs, which includes auditing claims. The Supervisor serves as the Town's chief fiscal officer and is responsible for performing basic accounting functions, including maintaining accounting records and safeguarding Town funds. The Town contracts with an accounting firm (Firm) to assist the Supervisor by providing bookkeeping services.

The Town provides various services, including road maintenance, snow removal and general government support. The Town's primary funding sources are real property taxes and State aid. The Town's 2016 budgeted appropriations totaled approximately \$750,000.

Objective

The objective of our audit was to review the cash disbursement process. Our audit addressed the following related question:

- Were disbursements properly accounted for, approved and for legitimate Town expenditures?

Scope and Methodology

We examined the Town's disbursement process for the period January 1, 2015 through December 2, 2016.

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 agreed with our findings and 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 Town Clerk's office.

Disbursements

According to New York State Town Law, only the Supervisor or Deputy Supervisor (in instances when the Supervisor is unavailable or unable to perform his duties) may disburse Town funds. Disbursement of Town money (except petty cash, electronic payments or wire transfers) must be made by checks signed by the Supervisor and supported by documentation, such as claims and payrolls. Before making payroll payments, Town officials having direct supervision responsibilities must certify that the hours worked by employees as indicated on payrolls were actually performed.

When authorized by resolution, the Board may designate a Town employee to sign checks with the Supervisor's facsimile signature as reproduced by a signature stamp. However, the Supervisor must control custody of the signature stamp and supervise the designated Town employee when he or she is using it to sign checks.

While disbursements may also be made through electronic payments and wire transfers, such disbursements should be authorized by the custodial officer (or deputy) and made in accordance with a written agreement the Board is required to enter into with the Town's bank. Finally, other than limited exceptions, no claim may be paid before it is audited and approved by the Board as being properly supported and a legitimate Town expenditure.

We found that, generally, disbursements were properly accounted for; audited and/or certified, where required; and for legitimate Town expenditures. However, we found significant control weaknesses with regard to the Town Clerk (Clerk) and the Firm's accountant, who were able to make disbursements without the Supervisor's knowledge.

We examined disbursements and wire transfers totaling approximately \$617,000 (92 claim vouchers – \$128,000, 30 wire transfers – \$43,000, 17 interfund transfers between Town bank accounts – \$412,000 and three payrolls – \$34,000) and found that the Supervisor did not control the custody of his signature stamp and allowed the Clerk to affix his signature to checks.

Town officials indicated that it was more convenient for the Clerk to have custody of the signature stamp and use it to sign checks because she works more frequently at the Town hall. However, in delegating the check signing responsibility, the Supervisor delegated a responsibility that is incompatible and circumvented legally established controls between the Clerk's and the Supervisor's duties.

The Clerk generates the abstract of audited claims directing the Supervisor to pay those claims audited and approved by the Board and was allowed to sign checks with the Supervisor's stamp. As a result, the Clerk was improperly able to both generate the abstracts indicating the checks to be printed and also affix the Supervisor's signature to these checks.

The Supervisor did not retain custody of all Town funds and instead allowed the accountant sole access and responsibility for the Town's online banking transactions. As a result, the accountant improperly performed the Supervisor's duties of disbursing funds through wire transfers and electronic payments. Additionally the accountant performed all the Town's day-to-day accounting functions without sufficient oversight by the Supervisor.

The Supervisor told us that he did not have or want to have access to the online banking function. However, as the chief financial officer and official custodian of all Town funds, the Supervisor should authorize all wire transfers to ensure that funds are properly safeguarded. Further, neither the Supervisor nor the accountant prepared and provided the Board with monthly bank reconciliations, which with a listing of outstanding checks and canceled check images could mitigate some risk. Instead, the accountant provided a bank reconciliation for each account at year-end.

By not preparing and reviewing monthly bank reconciliations, including a review of canceled check images, personal or unauthorized disbursements could be made from Town accounts. Further, because no one independent of the accountant had access to the Town's online banking or reviewed bank statements or reconciliations, there is an increased risk that unauthorized disbursements could occur without being detected.

These control weaknesses existed because the Board did not adopt any policies or procedures to provide guidance over cash disbursements, enter into a written agreement with the Town's bank or conduct an annual audit of the Supervisor's records, as statutorily required. Further, the Supervisor and Clerk were unaware of their statutorily required duties regarding disbursements. Consequently, Town officials do not have adequate assurance that disbursements are properly accounted for, approved and for legitimate Town expenditures.

Recommendations

The Board should:

1. Develop policies and procedures regarding cash disbursements, including, but not limited to, roles and responsibilities (e.g., signature on checks, online and wire transfer payments)

and methods to ensure that all Town money is properly safeguarded.

2. Enter into a written agreement with the Town's bank to indicate the manner in which electronic or wire transfers will be made, including, but not limited to, which Town officials are authorized to do so.
3. Annually audit, or retain an independent auditor to audit, the Supervisor's records and document the audit steps and related results in the minutes of its proceedings.

The Supervisor should:

4. Maintain custody of his signature stamp, sign all Town checks or have the Deputy Supervisor sign checks in his absence, as statutorily permitted.
5. Discontinue delegating incompatible duties to the Clerk.
6. Provide sufficient monitoring and oversight of the accountant to ensure funds are properly safeguarded, including, but not limited to, preparing monthly bank reconciliations, reviewing bank statements and reviewing and authorizing all online electronic and wire transfer payments.
7. Ensure that monthly bank reconciliations are provided to the Board for its review.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Town of Genesee

8296 Main Street, P. O. Box 40
Little Genesee, New York 14754
Phone (585) 928-2178 - Fax (585) 928-2007
Hours: Tues. & Wed. 9am-4pm
Thurs. 12 Noon-6pm

March 6, 2017

Office of the NYS Comptroller
110 State Street
Albany, NY 12236
caps@osc.state.ny.us
ATTN: Chief Examiner

RE: Town of Genesee Audit
Answer to Draft Audit Report

Dear Sirs:

On February 16, 2017 I met with examiners from your office. They had submitted a Draft Audit Report covering the Town of Genesee from January 1, 2015 – December 2, 2016.

We are in general agreement with all the findings in this Draft Report. However, we feel there are extenuating circumstances which should be included in this report.

As Town Supervisor, I was elected to the position in January 2014. I had only been in office a matter of months when, in December 2014, there was a fire at the Genesee Town Hall which necessitated the removal of all offices and records being placed into storage. During this time frame (December 2014 – December 2015), the Town offices were located in our local Library, which only provided room for the Town Clerk. Most all records and equipment remained in storage until the Town Hall was completely renovated. Following that, in March 2015, the Town Clerk who had served since 2008, passed away. The Town Clerk position was then filled on a part-time basis until the present Clerk, Bonita Brunner, was appointed at the end of April 2015.

During this time the Town Clerk and myself did what was necessary for the day-to-day operations of the Town. We were also assisted greatly by the Town's accountants, [REDACTED], as it was necessary for them to completely take over the accounting and reporting aspects for the Town. Renovations on the Town Hall were completed in December 2015 and it took another few months to completely settle into the building.

As stated earlier, we agree with findings in this report, and within the next 90 days we intend to develop and implement policies and procedures as referred to in the report.

Very truly yours,

Donald Jordan
Town Supervisor

DJ:bsb

cc: [REDACTED]

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials and the accountant to gain an understanding of the disbursement functions, including the claims audit, payroll and online banking processes.
- We selected three random months and reviewed all 71 claim vouchers and judgmentally selected all 21 claim voucher payments to Town officials to determine whether they contained all necessary information and documentation, and we traced to the abstracts of audited claims to ensure they matched. We randomly chose the three months using a random number generator.
- We judgmentally selected three payrolls – one annual, one quarterly and one biweekly – to assess whether payments to employees were accurately recorded. Our sample selection was made specifically to capture one of each type of payroll for our sample.
- We judgmentally selected and reviewed three months of bank transfers for the Town’s five bank accounts and all wire transfers from January 1, 2015 through July 30, 2016 to determine if they were properly accounted for and for proper Town purposes. We selected these months to include one month in 2015, the first month of 2016 and the last completed month before we began the audit.
- We performed a bank reconciliation for all five bank accounts as of June 30, 2016. We chose this month because it was the last completed month before we began our audit.
- We reviewed the check sequence for the period January 1, 2015 through July 30, 2016 to assess the integrity of the check sequence throughout this period. We reviewed any checks that cleared the bank and were out of sequential order.

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.

APPENDIX C

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