

Town of Ephratah

Accounting Records and Reports

DECEMBER 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Town of Ephratah

Audit Objective

Determine whether the Town of Ephratah (Town) Town Supervisor (Supervisor) maintained complete, accurate and timely financial records and reports.

Key Findings

In 2017, OSC issued an audit report¹ that included findings that the Town's accounting records and reports were incomplete, inaccurate and could not be relied on to make financial decisions. The Supervisor has continued to not maintain the Town's accounting records and reports in a complete, accurate, up-to-date or timely manner. Without reliable accounting records, the Board cannot make sound financial decisions.

- The general fund balance was understated by \$34,270 and the highway fund balance was understated by \$60,948.
- Bank reconciliations were not performed in a timely manner.
- Annual Update Documents (AUDs) from 2015 through 2020 were filed with the Office of the State Comptroller (OSC) between 296 and 2,092 days late.
- The Board did not annually audit the Supervisor's records.

Key Recommendations

- Develop policies and procedures to ensure the accounting records are properly maintained.
- Complete bank reconciliations on a timely basis.
- File AUDs as required.
- Annually audit the Supervisor's records.

Town officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate corrective action.

¹ *Town of Ephratah Supervisor's Records, Reports and Deposits (2016M-311)*

Background

The Town, located within Fulton County, is governed by an elected five-member Town Board (Board) composed of the Supervisor and four Board members.

The Board is responsible for overseeing the Town's operations and finances.

The Supervisor is the chief executive and chief financial officer, and is responsible for keeping an accurate and complete accounting of all Town funds received and disbursed and filing required reports.

Quick Facts

2022 Appropriations

General Fund	\$452,095
Highway Fund	\$1,053,835
Fire Protection	\$133,500
Population	1,600

Audit Period

January 1, 2021 – December 31, 2021.

We expanded our scope back to January 1, 2015 to determine whether AUDs and extensions were filed and to determine the last Board audit of the Supervisor's records.

Accounting Records and Reports

The Supervisor received a notification in September 2021 that OSC selected the Town for audit. According to the Supervisor, after receiving the audit notification letter, the bookkeeper started working on getting the accounting records up-to-date and was able to file all delinquent AUDs for fiscal years 2015 through 2020 by December 22, 2021. The bookkeeper timely filed the fiscal year 2021 AUD on March 1, 2022. While the bookkeeper was able to get the accounting records up-to-date and file the delinquent AUDs, we identified certain areas of improvement.

How Should a Town Supervisor Maintain Records and Reports?

A town supervisor is responsible for maintaining complete, accurate and timely financial records that summarize the town's financial activity. The accounting records should document the assets, liabilities, fund balances and results of operations (revenues and expenditures) for each town fund. Monthly bank reconciliations must be performed to help ensure all receipts and disbursements are properly recorded and provide a way to identify, correct and document differences between the town's records and bank transactions.

If the supervisor assigns these duties to a bookkeeper, the supervisor still maintains the responsibility for the accuracy and timeliness of the financial records. As such, the supervisor must provide sufficient oversight to ensure the bookkeeper maintains suitable records, documents financial information accurately and in a timely manner, and provides useful reports to the town board. These reports should include a balance sheet and detailed budget-to-actual comparisons of revenues and expenditures, totaled by account code, for each fund. The records and reports should also provide sufficient detail to ensure that revenues and expenditures, as budgeted and collected or expended, are recognized and recorded in the proper fund.

The Supervisor Did Not Maintain Adequate and Timely Accounting Records

In 2017, OSC issued an audit report² that included findings that the Town's accounting records and reports were incomplete and inaccurate and could not be relied on to make financial decisions. We found, during this audit, that the Supervisor continued to provide little oversight over his bookkeeper to ensure the accounting records were maintained on a timely basis. We examined the Town's accounting records for the fiscal year ending 2021 and found that, while revenues and expenditures were recorded timely and accurately, balance sheet accounts were not properly maintained due to carrying over unsupported balances for interfund advances and payables from prior years. As a result, the general

[T]he Supervisor continued to provide little oversight over his bookkeeper to ensure the accounting records were maintained on a timely basis.

² *Town of Ephratah Supervisor's Records, Reports and Deposits (2016M-311)*

fund balance was understated by \$34,270, and the highway fund balance was understated by \$60,948.

The Supervisor and bookkeeper told us that these account balances were unsupported carry overs from prior years and that, while they have not made it a priority in the past, they hope to correct these accounts during the current fiscal year. Further, the bookkeeper started preparing monthly detailed budget-to-actual comparisons of revenues and expenditures for the Board in February 2021. However, she did not provide the Board with monthly balance sheets because she did not prepare monthly bank reconciliations of the cash accounts and did not reconcile the advances between funds to ensure they were supported. Without accurate accounting and reporting of cash and fund balances, the Board cannot make sound financial decisions on future purchases and for the budgeting of appropriate fund balance in subsequent years.

The Supervisor also did not make it a priority to ensure that the bookkeeper performed regular bank reconciliations. The bookkeeper told us that after receiving the audit engagement letter, she started preparing the monthly bank reconciliations for the Town's six bank accounts and completed all bank reconciliations from 2016 through December 2021 prior to filing the Town's AUDs. We examined the December 2021 bank reconciliations for the Town's six bank accounts (reconciled balances totaling \$593,668) and verified that they were properly completed and agreed to the cash balances recorded in the Town's accounting records and reported in the 2021 AUD filing. While the bookkeeper is up-to-date on preparing monthly bank reconciliations, the previous failure to regularly reconcile adjusted bank balances to recorded balances prevented monitoring by the Board, the timely detection of accounting errors, and increased the risk that fraudulent transactions could occur and go undetected.

When Should a Town Supervisor File an AUD?

A town supervisor must file an AUD with OSC within 60 days of the end of a town's fiscal year (December 31) or request an extension which, if granted, would extend the deadline an additional 60 days. The AUD provides a town board, OSC, town residents and other interested parties with a transparent tool to monitor and evaluate financial operations.

The Supervisor Did Not File AUDs in a Timely Manner

The Supervisor did not file AUDs for the Town for fiscal years 2015 through 2020 in a timely manner. While the 2021 AUD was filed by the due date, on average the prior six AUDs were filed 1,198 days past the filing deadline (Figure 1). The Supervisor told us the primary reason for not filing the six AUDs in a timely manner was a combination of difficulties the bookkeeper was having completing

the necessary work for the Town and his lack of oversight over the bookkeeper's duties.

The absence of the AUDs impairs the Board's, Town residents' and other interested parties' ability to monitor the Town's operations and financial condition. As such, the Board's ability to make informed decisions and manage Town operations is impaired. Failing to file in a timely manner for six consecutive years calls into question the Town's financial standing and the effectiveness of the Town's management in general.

Figure 1: AUD Filings

Fiscal Year	Days Late
2015	2,092
2016	1,738
2017	1,380
2018	1,020
2019	660
2020	296
2021	0

Why Should the Town Board Perform an Annual Audit of the Town Supervisor's Records?

Unless a certified public accountant or public accountant has been hired to audit the town supervisor's records within 60 days after the close of the fiscal year, a town supervisor is required to submit an annual accounting to the town board on or before January 20 for all funds received and disbursed during the preceding year. The town supervisor also must produce all books, records, receipts and canceled checks for the town board's inspection. The annual accounting helps a town board fulfill its overall fiscal oversight responsibilities by providing it with an opportunity to assess the reliability of the books, records and supporting documents. It also serves to identify conditions that need improvement and provides useful information to help a town board oversee its town's financial operations.

The Board Did Not Annually Audit the Supervisor's Records

The Supervisor did not provide an annual accounting and the Board did not audit, or contract with an independent public accountant to audit, the Supervisor's accounting records for 2015 through 2021. Two Board members (one of which was on the Board during our last audit), told us they were unaware of the annual audit requirement, which was the same reasoning provided by Town officials in our prior audit in 2017. Had the Board completed an audit, it may have noticed that bank reconciliations were not completed in a timely manner, and it could have initiated corrective action. In addition, without an annual audit, Town officials are at risk of failing to detect and correct errors, irregularities or potentially fraudulent activity in a timely manner.

What Do We Recommend?

The Supervisor should:

1. Maintain accurate accounting records that document assets, liabilities, fund equity and results of operations for each Town fund.
2. Perform complete and accurate monthly bank reconciliations in a timely manner.
3. Prepare and provide monthly financial reports to the Board which include budget-to-actual comparisons, balance sheets including fund balance amounts, and reconciled cash balances for each fund.
4. Prepare and file future AUDs with OSC within 60 days after the close of the fiscal year.

The Board should:

5. Implement fiscal policies to ensure that the Town's accounting records, as maintained by the Supervisor, are complete, accurate and up-to-date.
6. Require that the Supervisor provide monthly financial reports that include budget-to-actual comparisons, balance sheets including fund balance amounts, and reconciled cash balances for each fund.
7. Review bank reconciliations each month and ensure that any discrepancies are investigated and corrected immediately.
8. Require the Supervisor to prepare and submit AUDs with OSC in a timely manner.
9. Audit the Supervisor's records and reports annually by January 20 of the following year or engage the services of a certified public accountant or public accountant to conduct the audit.

Appendix A: Response From Town Officials

TOWN OF EPHRATAH

Municipal Office Building

3782 State Highway 10
St. Johnsville, New York 13452
Tel: (518)762-5688; Fax: (518)

Response and Corrective Plan to: Report of Examination #2022M-138

This report is in **response** to the audit conducted by the Office of the State Comptroller concerning the Town of Ephratah's Report of Examination #2022M-138. The Town of Ephratah Supervisor as well as the Town Board is hereby in agreement with the findings of said report. The following statements will **respond** to the audit findings and how the Town of Ephratah may better itself to follow proper procedures and guidelines to maintain complete and accurate accounting records and reports. This report also includes those **corrective actions** that have already been or are in the process of being resolved.

The Town of Ephratah is at present caught up one hundred percent (100%) with the reconciliations of its financial records and as noted in the findings report, all required Annual Financial Reports (AUD's) have been filed. In the future, the Town Board will make sure to include an internal annual audit of the supervisor and bookkeeper's financial records when auditing the other departments' accounts. This practice will be written in the Town Organizational Minutes to insure that the present governing board as well as any future governing board adheres to their duties of auditing the various departments, most importantly those of the supervisor and bookkeeper's financial records. The audit of said records will be set sometime in the month of March each year after the AUD (Town due date: February 28) has been filed. This practice will also insure that the AUD has been filed. A meeting on March 8, 2023 has already been set to audit the 2022 financial records by the Town of Ephratah Town Board.

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Response and CAP

Report of Examination #2022M-138

The findings concerning the General and Highway Fund balances being understated has been improved through our 2023 budget process as well as the corrective measures taken through the reconciliations of said funds. The upcoming filing of the 2022 Annual Financial Report (AUD) will reflect a much better accounting and balancing picture of the General and Highway fund balances. We have taken measures to add more revenue to the budget (mainly sales tax) as well as increasing the real property taxes as needed and especially relating to the Highway Fund.

Now that the Town's financial records are in order, the budget practices have become much clearer and the Town will be able to better keep in line all that is involved. The Supervisor and Town Board are in the process of forming practices that will help them to better understand the reading of their reports which will also help in the knowledge and preparation of balancing a proper budget.

In closing, the Town of Ephratah will create certain policies and procedures that will be followed monthly as well as annually by the current governing board and hopefully the future governing board . The town is positive that this will also avoid any repetition of the condition of the Town of Ephratah and its financial picture. The Town is also very confident that these policies will long be in place when the Office of the State Comptroller visits next.

Very respectfully yours,

Todd Bradt, Supervisor

Ivan Duesler, Councilmember/Deputy Supervisor

Eleanor Smith, Councilmember

Andrew Chorlton, Councilmember

George Cosselman, Councilmember

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Town of Ephratah
Response and CAP
Report of Examination #2022M-138

We, the Supervisor and Town Board, hereby attest to the above **Response and Corrective Action Plan Report**.

Todd Bradt, Supervisor

Ivan Duesler, Councilmember/Deputy Supervisor

Eleanor Smith, Councilmember

Andrew Chorlton, Councilmember

George Cosselman, Councilmember

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials to gain an understanding of the Town's processes and operations and to determine whether internal controls were in place over financial management.
- We reviewed Board minutes and interviewed Board members to determine whether the Board audited the Supervisor's records or caused them to be audited.
- We interviewed Board members to determine whether they received financial information that allowed them to provide sufficient oversight of Town operations and finances.
- We reviewed the Town's financial information and, on a test basis, reviewed the available accounting records including the general ledger and adopted budgets for the fiscal year 2021.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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.

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 provided 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 the CAP available for public review in the Town Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

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