

Town of Waterloo

Financial Management

JULY 2022



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

Contents

Report Highlights	1
Financial Management	2
What Is the Board’s Role in Effective Financial Management?	2
The Board Did Not Implement Adequate Corrective Action for Prior Audit Reports.	3
The Board Did Not Establish Adequate Controls or Guidance	4
The Board Did Not Actively Oversee the Supervisor’s Office	4
What Is Effective Financial Management?.	5
The Board Did Not Adopt Realistic Budgets or Properly Manage Fund Balance	5
The Board Did Not Adopt Multiyear Financial and Capital Plans	9
What Is the Supervisor’s Role in Effective Financial Management?.	10
The Supervisor Did Not Provide Adequate Oversight	11
The Supervisor Did Not Maintain Accurate Records or Reports.	13
What Do We Recommend?	18
Appendix A – Response From Town Officials	21
Appendix B – Audit Methodology and Standards	22
Appendix C – Resources and Services	25

Report Highlights

Town of Waterloo

Audit Objective

Determine whether the Town of Waterloo (Town) Board and Town Supervisor (Supervisor) ensured the Town had adequate financial records and reports to effectively manage Town finances.

Key Findings

The Board and Supervisor did not effectively manage the Town's financial operations, and were unaware of the Town's true financial position, because the Supervisor did not maintain accurate accounting records and reports. In addition, the Board did not:

- Implement adequate corrective action to address prior audit findings and recommendations, which prolonged significant deficiencies, such as inadequate financial policies, procedures, records and reports.
- Conduct, or contract for, an annual audit of the Supervisor's records.
- Establish written multiyear financial and capital plans to adequately manage fund balance.

Key Recommendations

- Establish written policies for financial operations, develop written multiyear financial and capital plans and adopt realistic budgets.
- Provide adequate oversight and attend municipal accounting training.
- Maintain accurate accounting records and provide monthly financial reports to the Board.

Town officials agreed with our findings and indicated they have initiated corrective action.

Background

The Town is located in Seneca County and includes the Village of Waterloo (Village).

The Town is governed by an elected Board, which includes the Supervisor and four Board members. The Board is responsible for the general management and control of the Town's financial affairs, which includes adopting the annual budget and establishing financial policies.

The Supervisor serves as the Town's chief fiscal officer and budget officer. He is responsible for the Town's day-to-day financial activities, which includes maintaining accounting records and providing financial reports to the Board. An account clerk assists the Supervisor in performing his financial duties and another clerk processes payroll.

Quick Facts

2021 Appropriations

Town-wide (TW) General and Highway Funds	\$1,185,000
Town-outside-village (TOV) General and Highway Funds	\$881,900
Water Fund – Six Districts	\$634,400
Sewer Fund – Two Districts	\$516,600

Audit Period

January 1, 2018 – November 24, 2021

Financial Management

The Town manages several funds to account for specific activities. Town-wide funds (TW funds) benefit residents of the entire town, including the village. Town-outside-village funds (TOV funds) benefit only residents of the portion of the town that is located outside of the village.

The Town established special districts to provide specific services (such as water or sewer) to properties in specific areas of the Town. Each special district constitutes a separate accounting entity with its own tax base. The multiple special districts for a certain purpose, such as water, comprise the fund used to account for those services, such as the water fund. The Board may transfer money between TW funds or between TOV funds, but may not transfer money between funds with different tax bases.

A unique aspect of financial management in this Town is the revenue it receives, averaging \$620,000 annually, in fixed quarterly payments, in accordance with a community benefits agreement (CBA) with a local landfill. The CBA specifies various broad categories of qualified expenditures for acceptable uses of this revenue.

The Town's current account clerk started in March 2020, following the departure of three other account clerks during our audit period. In addition, the Village managed water and sewer billing and collections for the Town until it relinquished the function to the Town in December 2019.

What Is the Board's Role in Effective Financial Management?

A town board (board) is responsible for overseeing financial operations, safeguarding resources and making financial decisions that are in the best interests of the town and its residents. The ability to make sound financial decisions starts with accurate financial information and sound budgeting practices.

Board members need to understand the extent of oversight required to meet their responsibilities, which include implementing timely correction of all audit findings and establishing a system of internal controls.

A board should adopt and implement written policies and procedures to:

- Provide clear guidelines for how the board intends to conduct operations.
- Segregate employee duties or establish compensating controls where duties cannot be adequately segregated.
- Ensure transactions are authorized and accurately recorded and have adequate supporting documentation.

A board is responsible for actively overseeing the town supervisor's (supervisor's) office. A board should require the supervisor to prepare and provide periodic

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financial reports and supporting records for review, to monitor the town's financial activity and make management decisions.

Also, a board is required to conduct, or contract for, an annual audit of the supervisor's records to help ensure that all town money has been adequately accounted for. In addition, when engaging a service provider to assist a supervisor in maintaining financial records and reports, a board should approve an adequate written agreement with the service provider to document the agreed-upon services to be provided, specified timeframes, the basis for compensating the provider and other terms and conditions.

The Board Did Not Implement Adequate Corrective Action for Prior Audit Reports

Two previous Office of the State Comptroller (OSC) audit reports¹ included numerous findings and recommendations related to financial operations, which the Board did not adequately address. We previously found that the Town did not:

- Have written policies and procedures, interim financial reports and written multiyear financial plans.
- Calculate unaccounted-for water to identify potential water loss.
- Adopt realistic budgets, which caused both deficit and excessive fund balances.
- Properly establish and use reserve funds.
- Properly budget, record and use CBA revenues.

Although we provided the Board with recommendations to help it improve financial operations, the Board did not implement adequate corrective action to address the deficiencies. In addition, the Town's 2016 external financial audit highlighted the Board's lack of corrective action related to OSC's 2012 audit findings, but the Board still took no corrective action.

As a result, the Town's existing deficiencies remained or worsened, and more developed. Because the Board did not correct the significant deficiencies identified in the Town's financial operations, the Town still does not have accurate accounting records and reports. Also, the Board did not have an adequate understanding of the Town's financial status since at least 2012. Therefore, the Board cannot ensure that Town officials have used all resources equitably and in the best interests of Town residents and taxpayers.

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¹ *Town of Waterloo – Financial Management and Information Technology (2012M-137)*, released December 2012 and *Town of Waterloo – Board Oversight (2017M-110)*, released December 2017

The Board Did Not Establish Adequate Controls or Guidance

The Board did not adopt adequate written policies for financial operations to set expectations, establish controls and oversight procedures and provide guidance and direction to officials and employees. In addition, Town officials did not develop detailed written procedures to establish, assign and segregate accounting and reporting duties and to establish review procedures. For example, the Town did not have written policies or procedures for the following:

- Preparing and maintaining accounting records, including bank reconciliations and financial reports.
- Preparing the annual budget, determining the amount of fund balance to retain, and establishing, funding and using reserves.
- Managing water and sewer financial operations, which includes billing, collecting and adjusting water and sewer rents and preparing water loss reconciliations.
- Processing payroll and ensuring employees use time clocks and submit time sheets to track their hours worked.

Because the Board did not provide adequate oversight and guidance regarding accounting, reporting and financial duties, it created an environment where officials and employees did not have adequately segregated duties. Also, employees did not maintain adequate, accurate or current accounting records; supporting documentation for recorded transactions; and financial reports. Furthermore, the inadequate policies and procedures likely contributed to the problems the Town experienced with the significant staff turnover. As a result, the Town has an increased risk that irregularities or misuse of funds could occur without detection.

The Board Did Not Actively Oversee the Supervisor's Office

Although previous audit reports recommended that the Board take a more active role in overseeing the Supervisor's office, the Board abdicated its management role to the Supervisor. Therefore, the Board did not fulfill its fundamental responsibilities. For example, the Board did not require the Supervisor to submit complete, accurate and reliable financial reports. As a result, the Board did not have sufficient information to monitor the Town's financial activities and make informed management decisions.

In addition, the Board mistakenly thought the Supervisor's records were audited, but the Board did not conduct, or contract for, the required annual audit of the Supervisor's records. By not adequately overseeing the Supervisor's office, the Board contributed to the significant problems that we identified in the Town's

...[T]he Board abdicated its management role to the Supervisor.

accounting records. In addition, the Town had an increased risk that money could be misappropriated.

What Is Effective Financial Management?

Boards are responsible for making financial decisions that are in the best interests of their towns and taxpayers. This includes adopting reasonably estimated and structurally balanced budgets that are based on historical data or known trends. Also, boards must ensure that supervisors provide an estimate of the amount of fund balance that will be available.

Boards may retain a reasonable amount of fund balance for unforeseen circumstances and to provide cash flow, for example, to compensate for timing differences between revenues and expenditures. Boards also may legally establish reserves to finance future costs for a variety of purposes (for example, capital projects or equipment purchases).

When authorizing cash advances between town funds, boards must repay them as soon as money is available, but no later than the close of the fiscal year in which the advance was made. Also, if boards authorize cash advances between funds with different tax bases, the boards must ensure they are repaid with interest.

Boards should adopt written multiyear financial and capital plans to set long-term priorities. These plans also help boards assess alternative approaches to financial issues, such as accumulating fund balance, obtaining financing, using available surplus funds to finance annual operations, or establishing reserves for future capital plans.²

Prudent financial management helps ensure that sufficient funding will be available to finance operations and address unexpected occurrences without depleting fund balance or requiring borrowing, sudden tax increases or drastic budget cuts.

The Board Did Not Adopt Realistic Budgets or Properly Manage Fund Balance

The Board hindered its ability to adopt realistic budgets and properly manage fund balance because it did not properly oversee the Supervisor's office. Without this oversight, the Board was unaware of the many inaccuracies and unsupported adjustments in the Town's accounting records and AUDs. As a result, the Board did not have accurate information to assess historical results when adopting

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² For more information, refer to two of OSC's *Local Government Management Guides: Multiyear Financial Planning* (<https://www.osc.state.ny.us/files/local-government/publications/pdf/multiyear.pdf>) and *Multiyear Capital Planning* (https://www.osc.state.ny.us/files/local-government/publications/pdf/capital_planning.pdf).

annual budgets. Consequently, the Board adopted inaccurate budgets that resulted in unplanned, or partially planned, operating deficits in various Town funds.³

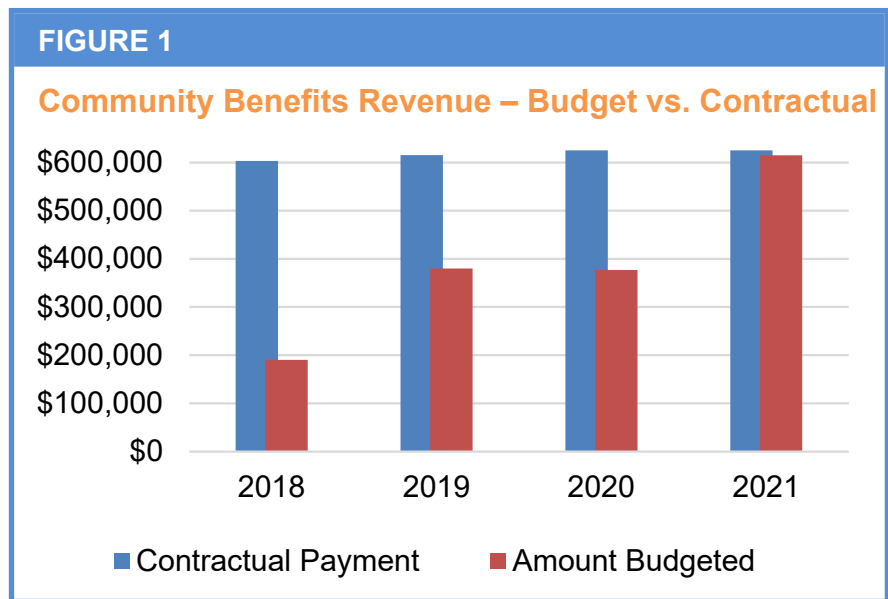
Also, the Board’s adopted budgets did not include known information, such as contractual payments of CBA revenue. The Board budgeted only 51 percent of the CBA revenue that was due to the Town from 2018 through 2020. This accounted for the majority of the revenue budget variances that we identified.

Board members told us they were aware that they needed to correct the budgeting for CBA revenue. However, they did not revise the Supervisor’s tentative budgets to include this anticipated revenue until after we began our audit. As a result, the Board budgeted for 96 percent of the 2021 contractual CBA amount (Figure 1).

Additionally, officials generally did not record or allocate the portions of the CBA revenue, which they had budgeted, to the applicable funds. This caused significant budget variances in the TW general and TW and TOV highway funds.

Also, the Town’s records were so deficient that the Board did not have accurate estimates of available fund balance. Still, the Board appropriated more fund balance than what was believed to be available to balance the budgets. For example, the TW highway fund had a reported deficit fund balance – with no available funds at the end of the 2019 fiscal year (\$106,316) and 2020 fiscal year (\$244,839). However, the Board appropriated \$48,612 of fund balance in 2020 and \$62,553 in 2021. When the Board appropriates more fund balance than is actually available, it causes Town funds to begin the fiscal year without sufficient resources to meet expected appropriations.

Because Town officials did not have an accurate picture of each fund’s financial condition, we tried to evaluate the Town’s financial condition. However, the true financial condition of the Town’s funds cannot be determined until Town officials resolve the various uncertainties in the records, including unsupported adjustments, interfund advances and questionable cash balances.



³ Because the various accounting errors and deficiencies caused inaccurate financial information, we did not include a detailed financial analysis for each fund in this report.

General and Highway Funds – As of December 31, 2020, the TW and TOV general funds had unreasonably high surplus fund balance. Conversely, the TW and TOV highway funds had deficit fund balances.

We adjusted the reported surplus fund balance in the TW general and TOV general and highway funds to address various errors, the largest of which was to reclassify CBA money that was improperly reported as restricted fund balance (Figure 2). Because the TW and TOV general funds can provide support to their respective highway funds, we also calculated the combined surplus fund balance totals as a percentage of combined 2021 appropriations.

Figure 2: Recalculated 2020 Surplus/(Deficit) Fund Balance as a Percentage of 2021 Appropriations

TW General	TW Highway	TW Combined	TOV General	TOV Highway	TOV Combined
\$1,888,223	(\$368,038)	\$1,520,185	\$106,211	(\$68,542)	\$37,669
221%	-112%	128%	139%	-9%	4%

Even after absorbing a large highway fund deficit, the TW combined fund balance was still 128 percent of the 2021 budget. Without an established fund balance goal, it is unclear why the Town needed to maintain this level of TW fund balance, or why it did not maintain a sufficient TOV combined fund balance.

It is particularly important to note that Town officials created the highway fund deficits by repeatedly allocating CBA revenue to the TW and TOV highway funds to balance their annual budgets (three-year total of \$355,000 in the TW and \$372,000 in the TOV highway funds), but retained all CBA revenue in the TW general fund. This created significant budget and operating deficits for all three years in both highway funds. It is not prudent, responsible or transparent to consistently withhold budgeted revenue and report the highway funds with significant deficits, while holding excessive fund balance in the general funds.

Water and Sewer Districts – In 2018, the Board increased billing rates for the water and sewer funds to generate sufficient revenues to cover operating costs. However, the Supervisor told us that the Board was unable to determine whether the current rates were sufficient to cover costs because activity was incorrectly recorded in the wrong districts or funds. Also, he did not have sufficient documentation to determine what corrections should be made.

The current account clerk told us that the consultant, who was helping the Supervisor’s office to catch up on recording accounting activity in the accounting software, incorrectly combined the water and sewer deposits. Instead, the consultant should have separated the deposits into amounts received for the water and sewer funds and, more specifically, for individual water and sewer districts.

Without adequate records, the Board did not have an accurate picture of these funds' financial condition. Also, we were limited in our ability to assess the financial condition of the individual water and sewer funds and districts.

Water Fund – According to the Town's AUDs, the water fund had a reported deficit fund balance at the start of 2018, which grew to a larger deficit by the end of 2020. The water fund's financial condition declined, in part, because Town officials did not monitor water loss. Water loss can have a significant financial effect on water districts because it causes an expenditure for which no revenue is received.

The Board and Supervisor did not ensure that Town officials prepared water loss reconciliations and reports on unaccounted-for water. Town officials did not periodically compare water purchased with water billed and determine whether any difference was caused by recordkeeping errors, leaks, thefts or malfunctioning meters.

We estimated that the Town's 2020 unaccounted-for water was at least 20.7 million gallons, or 24 percent of water purchased from the Village. This is significantly higher than the U.S. Environmental Protection Agency's goal for acceptable water loss (10 percent).

The Town paid at least \$38,000 for excess unaccounted-for water, which is 9 percent of the 2020 water fund expenditures. Also, officials did not ensure that the Village correctly billed the Town for water used.

Sewer Fund – According to the Town's AUDs, the sewer fund had a reported deficit fund balance at the start of 2018, but reported a positive fund balance of \$48,686 at the end of 2020. However, the sewer fund had an outstanding \$216,538 loan from the TW general fund (CBA revenue) that it did not repay by year-end as required.

The Supervisor told us that the Board planned to repay the loan over 10 years because it could not increase sewer rates again to repay the loan by the end of 2020. When the Board routinely needs or chooses to use cash from one fund to pay for expenditures of another fund, it is demonstrating poor budgeting and financial management.

Without adequate monitoring of complete and accurate accounting records and reports, Town officials did not ensure that all funds were prepared to meet future obligations. It is not prudent or equitable to maintain excessive fund balance amounts in some funds when the fund balance could be used to benefit other funds and reduce the burden on current taxpayers.

Town officials should work to further address the inaccuracies, interfund advances and cash balances so that they can have a better understanding of which funds may have surplus or deficit fund balances. Sound fund balance management

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helps ensure that funds will be available for operations and that real property taxes and water and sewer rates are sufficient to sustain operations, but are not higher than necessary.

The Board Did Not Adopt Multiyear Financial and Capital Plans

The Board did not develop written multiyear financial and capital plans to set the Town's various long-term goals and objectives and establish detailed plans for funding or using reserves. These plans could help the Board identify the most feasible options, and outline its intentions, for using accumulated and future resources, such as CBA revenue, to finance future capital improvements and maintain existing infrastructure.

The Supervisor told us that the Town was working with engineers to evaluate the sewer districts for current and future repair needs. He stated that, based on this evaluation, the Board would develop a capital plan to upgrade and repair the sewer system.

Planning to save money to finance all or part of future infrastructure, equipment or other needs is even more critical for the Town due to the recent financial condition concerns and lack of reserves in the water and sewer funds. If the Board planned for and budgeted sufficient resources to fund reserves for ongoing water or sewer system repairs and future capital projects, it could avoid significant financial concerns when future work is needed.

The Board also did not develop or approve a written equipment replacement plan to help guide decisions for retaining or reserving fund balance for future equipment needs.

To properly and prudently account for and use CBA revenue, the Board should plan, determine in advance and document how it intends to use accumulated CBA money and annual revenues in the most equitable manner and in the best interests of Town residents and taxpayers. By applying annual CBA revenue to finance portions of planned and approved projects or equipment purchases, the Board could simplify the budgeting and recording of these revenues. Prudent planning could also help ensure that the CBA revenue is used for agreed-upon purposes in a timely manner and in the best interests of residents and taxpayers. In addition, the Board should consider the long-term availability of these funds and how the absence of this revenue could affect future services.

Furthermore, the Board could take advantage of the CBA provision that allows the Town to place 20 percent of the annual revenue in reserve funds for town-wide tax relief or future capital expenditures. This would be a prudent and legal way to accumulate CBA revenue or other resources to spread out the burden of future projects.

To date, the Town has not made extensive use of reserves or developed written policies or plans for using them. Also, officials could not provide us with any Board resolutions that officially established the capital reserves maintained in the TW general and highway funds.

Without developing formal written multiyear financial and capital plans, the Board cannot adequately plan for future needs, help ensure the most prudent use of Town resources or ensure that its intentions for the Town will be fulfilled.

What Is the Supervisor’s Role in Effective Financial Management?

A town supervisor (supervisor) is responsible for maintaining accurate accounting records that document the financial activities for each fund. If a supervisor assigns these duties to someone else, the supervisor remains responsible for these activities. Therefore, the supervisor should provide adequate oversight of those employees assigned these duties to ensure they maintain accurate and current records and report timely financial information to the board. The supervisor’s oversight responsibilities include ensuring that:

- Designated employees maintain adequate documentation to support all transactions.
- Bank reconciliations are prepared and independently reviewed to identify, correct and document accounting and bank errors; detect possible fraud; and ensure that information recorded in the town’s accounting records matches reconciled bank balances. Adequate bank reconciliations are especially critical when the town’s bank accounts include commingled cash from multiple town funds.
- All activity has been accurately recorded in the accounting records, including allocating interest earnings proportionately, for each fund.
- Each fund has sufficient cash to finance its operations and that interfund advances are board-approved, recorded and repaid by the end of the fiscal year.
- Employees properly bill and collect water and sewer rents and submit any adjustments to water and sewer bills for review and approval.
- Officials and employees are accurately paid by reviewing and certifying each payroll.
- Accurate monthly financial reports are provided to the board, which include required detailed monthly reports of all money received and disbursed, budget-to-actual comparisons of revenues and expenditures for each fund and the supervisor’s monthly cash balance report.
- The AUD is accurate and filed with OSC within 90 days after the close of each fiscal year.

Complete and accurate accounting records enable a supervisor to provide accurate monthly reports to the board to help it make timely and prudent financial decisions.

The Supervisor Did Not Provide Adequate Oversight

The Supervisor did not make an effort to obtain training or otherwise become familiar with the computerized accounting records and reports to be able to fulfill his financial duties. Therefore, he was unable to adequately oversee or assist the new account clerks while they learned to prepare and maintain his accounting records.

The Supervisor relied on the account clerk, payroll clerk, software vendor and consultant to perform most financial duties. However, he did not provide training, guidance, or direction to the new clerks, adequately monitor their work or review financial records.

Accounting Records – The Supervisor did not have a user account to access the accounting software and, therefore, could not help prepare or independently review these records. He told us that he did not review accounting journal entries and that the extent of his review of the accounting records was mainly reviewing claims (invoices for payment approval).

The Supervisor also did not ensure that the clerks completed bank reconciliations for all Town bank accounts. In addition, although the Supervisor told us that he reviewed bank statements and reconciliations, he was unable to provide us with any documentation to indicate that he had completed these reviews. Furthermore, the Supervisor told us he did not review canceled check images, which is a crucial step in reconciling cash accounts.

Pooled Cash – The Supervisor did not ensure that each fund had sufficient cash to finance its operations. Because most bank accounts included commingled cash from multiple funds, cash was used to provide substantial temporary financing for other funds.

In addition, the current account clerk told us that she relied on the cash balances in the accounting software's general ledger as the actual cash balance amounts for each fund. However, she did not schedule and compare the total of those balances to adjusted bank statement balances. As a result, we question the accuracy of the recorded cash balances of each Town fund.

We scheduled the ledger balances and found that total year-end cash balances from the accounting records did not reconcile to our calculated adjusted balances, which were based on bank balances and outstanding checks. The unaddressed variances decreased from \$115,371 in 2018 to \$11,138 in 2020.

Also, certain funds had negative recorded and reported cash balances that the Supervisor did not address. At the end of 2020, the cash balances in the accounting records were negative for the TW highway fund (\$254,699), sewer district 2 (\$255,827), water district 1 (\$247,859), water district 4 (\$49,432) and water district 6 (\$2,033).

In addition, the Supervisor did not ensure that interest earnings were properly allocated among funds in 2019 and 2020. For example, interest earnings were not allocated to the TOV general or highway funds even though they both had positive recorded cash balances.

Allowing bills and obligations of cash-poor funds to be covered by money belonging to other funds, which are maintained in commingled bank accounts, generally masks the true financial condition of fiscally stressed funds. It also results in unrecorded interfund advances, often without Board knowledge or approval.

Any use of one fund's money to pay expenditures of another fund must have prior Board approval. Also, this usage must be properly recorded as an interfund advance and repaid within the same fiscal year, with interest if the advances are made between funds that have different tax bases.

Water and Sewer – The Supervisor did not independently review water and sewer bills since the Town started preparing its own bills in 2020. We reviewed the June 2020 bills for 137 water and sewer accounts and found that 22, which had estimated readings, were underbilled by a total of \$999.

The current account clerk told us that she did not review the “500 bills” that she prepared because it was too many to review. She believed that customers would inform her if there was an error with their bills. However, this is inappropriate and insufficient, in part, because customers are not likely to question or report underbilled amounts and may not identify other errors.

Although the Supervisor told us that he approved adjustments to water and sewer bills of \$5,000 or less, and the Board approved adjustments of more than \$5,000, Town employees did not maintain any documentation of approved adjustments. For perspective, the account clerk made 57 adjustments with net reductions totaling more than \$1.1 million during 2020. The majority of these reductions were due to large bills generated for two accounts that had broken meters.

Payroll – The Supervisor did not independently review payroll information entered into the accounting software, which included salaries, pay rates and hours worked. Although the Supervisor told us that he reviewed payroll reports, signed paychecks and certified the payroll, he did not sign the payroll certifications for 24 (86 percent) of the 28 payroll reports that we reviewed.

We question the effectiveness of the actions performed by the Supervisor because he did not identify discrepancies between authorized salaries and actual salaries paid, as follows:

- Three Town officials were underpaid by a combined total of approximately \$6,170 in 2020 because their biweekly salary amounts were incorrectly entered into the software or incorrectly calculated. We reviewed the 2021 payments for these three officials and found that two were correctly paid and one was still being underpaid (by \$1,009 through July 21, 2021).
- We reviewed the two July 2020 payrolls and found that the Town did not have adequate supporting documentation for 172 hours totaling \$3,461 paid to five employees. The 172 hours were unsupported, in part, because employees occasionally did not use the time clock to punch in or out (for various reasons, including forgetting to do so). Also, the payroll clerk told us that the time clock did not always work properly. The payroll clerk handwrote on the time clock hours report that the time clock was not working. However, written Town procedures should require employees to certify their hours worked when the time clock malfunctions.

As a result, the Town's accounting records were not current or accurate, customers received inaccurate water and sewer bills and officials were incorrectly paid. Also, significant errors went undetected and uncorrected, resulting in inaccurate accounting records and reports. Consequently, the Board did not have accurate financial information to make informed decisions.

The Supervisor Did Not Maintain Accurate Records or Reports

The Town's accounting records and financial reports were in considerable disarray. The accounting records contained many errors and inaccuracies, did not have adequate details and were not current. The Supervisor told us that this was partly due to the turnover in the account clerk position and the Town beginning to prepare its own water and sewer bills. However, it is the Supervisor's responsibility to maintain or ensure that employees consistently maintain accurate and current accounting records and reports.

Inadequate Details – Because the Supervisor was unable to maintain the accounting records, when the Town experienced repeated turnover in the account clerk position, an employee of the accounting software vendor (vendor employee) worked on the accounting records and AUDs and provided training to the account clerks. She provided these services as both a vendor employee and through her own private business (consultant).

The vendor employee/consultant attempted to correct and update some of the discrepancies in the accounting records. However, she did not include adequate descriptions or explanations – regarding what she changed and why – for the

The Town's accounting records and financial reports were in considerable disarray.

entries or adjustments she made in the records. For example, some descriptions that she provided for recorded transactions were “receipt,” “trans,” “not sure where this was trans” and “deposit with no info.”

We were able to determine the purpose or appropriateness for some of the transactions without adequate details. However, we could not trace all financial activity to a specific purpose or ensure it was properly recorded in the correct fund because most bank accounts included commingled cash from multiple funds.

In addition, various adjustments, including significant adjustments to cash, were made in the accounting records during 2018 and 2019. These adjusting journal entries included only vague descriptions such as “adjust to actual,” “adjust month end cash balance,” “year-end adjustments,” “reclassifications” and “corrections” without providing further explanations or supporting documentation for the changes. Due to the state of the records and deficient explanations and documentation, we could not determine whether the adjustments were appropriate.

Records Not Current – The current account clerk told us that the consultant also recorded all regular 2021 transactions, but that as of November 2021 the consultant had updated the records only through March 2021. She also told us that the consultant had not yet trained her to make routine accounting entries in the software on her own.

From January 1, 2019 through October 31, 2021, the Town paid the software vendor \$11,887 for training and “catching up to date on accounting program” or “catchup.” Most of the training was provided to prior account clerks (\$10,747). The current account clerk received 12 hours of online training in one week (\$1,140), which mainly focused on the accounting software’s budgeting module.

The Town also paid the consultant \$13,311 for “updating the books” and preparing the Town’s bank reconciliations and AUD. However, the Town did not have written agreements or documented billing rates for these services.

We also found that services billed as “catchup” by the software vendor overlapped with the time period during which services were also billed by the consultant for “updating the books.” These bills did not contain sufficient detail to rule out the possibility that the Town was billed twice for the same services.

Overall, the Town paid more than \$25,000 over three years (2019 - 2021) to the software vendor and consultant to assist the Supervisor in performing his financial duties. However, as of the end of our fieldwork, the Town still did not have current, accurate accounting records and financial reports, or a trained account clerk who could maintain the Town’s accounting records without assistance.

Inadequate Monthly and Annual Reporting – The Supervisor told us that the current account clerk could not generate a monthly Supervisor’s report (cash balances) or any other reports from the accounting software due to the condition of the accounting records. The Supervisor did not provide this monthly cash balance report, the required monthly report of receipts and disbursements or regular budget status reports to the Board during our entire three-year audit period.

If the Supervisor had provided these reports to the Board, they would have contained inaccurate financial information. However, Board members would have been able to question the inaccuracies or unusual and concerning information in the reports, such as negative cash balances.

We also found differences between the accounting records and the AUDs filed with OSC. The Town did make some changes to address some of the accounting deficiencies in the AUDs and generally made them more accurate than the accounting records. But the accounting records were not updated to include the identified corrections made in the AUDs.

Because the Supervisor did not ensure that the accounting records were updated for corrections identified when preparing the AUDs, he allowed the Town’s records to remain inaccurate and become increasingly more inaccurate.

Some of the more material examples of errors and inaccuracies reflected in the Town’s accounting records and/or AUDs for the 2018, 2019 and 2020 fiscal years included deficiencies in recorded and reported water and sewer rent receivables and revenues, recorded and reported CBA revenues, unrecorded and improper interfund advances and recorded reserve balances.

Water and Sewer Rent Receivables – Significant negative rent receivables were recorded and reported at the end of 2019 for the water fund (\$338,287) and sewer fund (\$317,797). This occurred due to a combination of improper recordkeeping practices.

Adjusting entries were made that improperly eliminated the balance of recorded receivables to begin the year, even though there were receivables from unpaid water and sewer bills issued in December 2019. Also, the account clerks did not properly record total quarterly billings in the receivables (and revenue) accounts. However, the account clerks still recorded payments against the unrecorded receivables account, which caused the negative receivable balances.

At the start of our audit, the Supervisor told us that he did not notice the significant errors in the reported negative water and sewer receivables on the 2019 AUD (which agreed with the records) when the AUD was submitted to OSC. However, these errors were subsequently brought to his attention by an outside organization when the Town sought grant funds.

In addition, we found that the accounting records and AUD did not include any water and sewer rent receivables at the end of 2020 to reflect outstanding bills issued in December.

Water and Sewer Rent Revenues – In 2019, the account clerks did not properly record quarterly billing totals in the water and sewer rents revenue accounts. They also did not record the water and sewer bill payments that were received as revenue.

In 2020, the account clerks recorded water and sewer bill payments as revenue, but did not record all revenue earned by booking the full billing to revenue and water and sewer rents receivables. Also, adjustments were incorrectly made to compensate for unrecorded revenue in prior years, which caused the recorded water and sewer revenue to be overstated in 2020.

Annual CBA Revenue – The Town did not properly recognize and report annual CBA revenue received from the landfill. In 2018, officials did not allocate or recognize any CBA revenue received. Instead, they reported the accumulated total balance of CBA revenue, totaling \$612,687 as of December 31, 2018, as deferred revenue in the TW general fund.

As we indicated in our 2012 OSC audit report, this money should not be reported as deferred revenue. It actually represents TW general fund revenue and increases the TW general fund's surplus fund balance.

In 2019, the CBA balance was moved to, and accounted for in, the capital projects fund, and all 2019 CBA payments were improperly recorded as revenue in the capital projects fund. Then the former account clerk transferred CBA money to the TW general (\$200,000) and highway (\$64,419) funds for use in September and October 2019. Board members told us that this money was not intended to be used solely for a capital project. The Supervisor also told us that the change in account clerks, and subsequent reliance on the vendor employee/consultant, caused the inconsistency in recording this revenue. However, the Supervisor should have directed how and where CBA and all other revenues were recorded and reported.

At the end of 2020, the CBA balance was moved back to, and accounted for in, the TW general fund, but reported as other restricted fund balance (\$875,249) instead of surplus fund balance. Town officials need to properly account for and appropriately use these funds in a consistent manner.

Interfund Advances – We identified various examples of unrecorded and improper interfund advance activity that the Supervisor and current account clerk were unfamiliar with and could not explain, as follows:

- In 2018, officials used \$418,639 of CBA money from the TW general fund for a water capital project. The Supervisor told us that this money was

The Town did not properly recognize and report annual CBA revenue. ...

intended to be paid back. However, the account clerk at the time did not record this use of CBA money as an interfund advance to be repaid. Had the Board properly planned and budgeted to use CBA revenue for the water capital project, it would have been a permissible use, according to the CBA. However, because the Town maintained this money in the TW general fund, it became part of that fund and was no longer available to use for water capital projects – other than using it for interfund advances that must be repaid to the TW general fund.

- 2019 year-end adjustments were made that eliminated water (\$146,000) and sewer (\$272,100) interfund payables and eliminated the corresponding interfund receivable in the TW general fund (\$418,100). While the general ledger cash accounts were similarly adjusted, there was no actual transfer of money from the water/sewer funds bank account to the general fund bank account. Also, the current account clerk told us that the adjustments were not intended to repay the capital project loan. In addition, Town officials did not provide any documentation to show that the Board approved the elimination of these advances without repaying them.
- In January 2020, the account clerk at that time transferred \$423,088 out of the CBA bank account. This transfer was not properly recorded in a TW general fund cash account and was only recorded as revenue through an interfund transfer from the capital projects fund, where the CBA funds were incorrectly recorded. The supporting documentation for the transfer indicated that it was to use CBA revenue according to the budget. However, this transfer did not coincide with budgeted amounts. Further, the current account clerk told us that the transfer was not intended to cover the prior year water and sewer loan elimination. However, \$423,088 was the total amount due from other funds in the TW general fund before adjustments at the end of 2019. (An additional \$5,000 for the trust and agency fund was zeroed out in 2020.) Therefore, it appears that the Town either used the CBA money to repay the outstanding water and sewer loans, or did not record the transfer to the cash accounts, to balance the previous error of recording the loan repayment when cash was not actually transferred from the water and sewer bank account.

Reserve Balances – Town officials did not carefully track or record available reserve balances and activity. Because the Town used a commingled bank account for all capital reserve funds, and due to poor recordkeeping, officials did not realize that the general fund capital reserve did not have sufficient funds to cover a June 2018 expenditure. Therefore, officials improperly used more than \$8,200 from the highway equipment capital reserve to cover the remaining general fund costs.

In addition, the account clerk at the time did not individually record TW highway fund capital reserve expenditures totaling \$146,103 from April (\$138,647) and June 2018 (\$7,456). Instead, the account clerk made two entries in the highway fund in June 2018 (both with the description “adjust to actual”) that decreased the reserve balance by \$153,918 and increased it by \$8,208, which was a net decrease of \$145,710.

It is possible that the account clerk made these entries in an attempt to adjust the highway capital reserve balance for the \$8,200 general fund overexpenditure. Due to these adjustments, and because the account clerk did not record interest earnings in the highway fund capital reserve after June 2018, the recorded year-end balance in this reserve did not correspond to the bank statement balance.

We also identified several other less systemic errors and transactions that were inaccurately recorded, or recorded in an untimely manner, that we discussed with Town officials.

Due to the multitude of errors and unclear explanations in the accounting records, we could not determine, with any certainty, the amount by which the Town’s various funds and accounts were over- or underreported. Because the Board did not provide oversight and insist that the Supervisor submit accurate and current financial information, the Town’s financial condition could deteriorate. Also, the Board could fail to detect significant errors and irregularities in the Town’s records and reports.

What Do We Recommend?

The Board should:

1. Implement timely corrective action to address previous and current audit findings.
2. Establish written policies and procedures governing financial operations, including accounting records and reports; water and sewer billings, collections and adjustments; water loss reconciliations and reports of unaccounted-for water; payroll; budgeting; reserves; and fund balance.
3. Take a more active approach in managing Town finances, require the Supervisor to submit accurate and timely financial information to the Board on a monthly basis and review this information to determine whether it can be relied on when making financial decisions.
4. Conduct, or contract for, an annual audit of the Supervisor’s records.
5. Enter into adequate written agreements – with any vendors engaged to assist the Supervisor in preparing accounting records and reports – that

establish the services to be provided, the timeframes for those services, the basis for compensation, among other necessary terms and conditions.

6. Develop and adopt budgets that include realistic estimates for all revenues and expenditures based on accurate, current data and historical trends. Also, adopt budgets that appropriate a reasonable and necessary amount of available fund balance.
7. Appropriately budget for, account for and use the annual CBA revenue for appropriate uses for the funds that need it.
8. Establish a plan to eliminate deficit fund balances and use surplus funds as a financing source for:
 - Funding one-time expenditures
 - Funding needed reserves
 - Paying off debt
 - Reducing property taxes
9. Ensure that officials prepare water loss reconciliations and reports on unaccounted-for water and provide these reports to the Board.
10. Increase efforts to minimize unaccounted-for water, including more timely identification and replacement of broken or malfunctioning meters.
11. Develop comprehensive written multiyear financial and capital plans and a reserve plan that set long-term objectives and goals, including plans for CBA revenue and equipment replacement. These plans should be monitored and updated on an ongoing basis.
12. Properly establish reserves by resolution, and ensure that staff maintains the resolutions and makes them available for public review.
13. Ensure that all interfund borrowing is approved, recorded and repaid as required.
14. Consult with legal counsel and review the underpayments made to officials and determine appropriate action to be taken, such as paying officials amounts owed.

The Supervisor should:

15. Attend, and provide to the account clerk, municipal accounting training, which is available through OSC and can be accessed on our website at: <https://www.osc.state.ny.us/local-government/academy>
16. Obtain a user account to access the accounting software.

-
17. Provide adequate oversight of the account clerk and payroll clerk, such as reviewing accounting records and certifying payrolls. Also, ensure that the clerks maintain adequate supporting documentation for all transactions, including journal entries and other adjustments.
 18. Ensure that the account clerk prepares accurate bank reconciliations in a timely manner for all Town bank accounts. Also, review bank statements, canceled check images and reconciliations, document this review and follow up on any identified discrepancies between the accounting records and bank balances.
 19. Address negative cash balances of individual funds, and ensure that any resultant interfund advances are Board-approved, properly recorded and repaid in a timely manner.
 20. Ensure that interest earnings are properly allocated among all funds.
 21. Review water and sewer bills before they are distributed to customers.
 22. Ensure officials and employees are properly paid and that employees provide adequate documentation for hours worked.
 23. Ensure that the account clerk makes necessary corrections to the accounting records and includes clear descriptions and adequate supporting documentation for the amounts of and reasons for all journal entries and adjustments.
 24. Maintain, or ensure the account clerk maintains, accurate, complete and current accounting records and reports.
 25. Provide the Board with accurate and timely monthly financial reports.
 26. Provide the Board with more accurate tentative budgets, including estimates of available fund balance.

Appendix A: Response From Town Officials

Town of Waterloo

Seneca County, New York

Municipal Offices
Phone (315) 539-9331
Fax (315) 539-4119

66 Virginia Street
Waterloo, New York 13165

Unit Name: Town of Waterloo
Audit Report Title: Preliminary Draft Findings
Audit Report Number: 2022M-7

The Town of Waterloo Supervisor and Board agree with the findings.

After receiving the draft, we realize the Town of Waterloo has many issues of great concern that need to be addressed and action taken. As the new board, from the last audits, we will implement a Corrective Action Plan based upon the findings from New York State Office of the State Comptrollers office's finalized report. The Town of Waterloo have started working on the issues stated since 2020. For example, as of June 2022 the Town of Waterloo has an extensive capital plan that was implemented by the Town of Waterloo Supervisor and Board and completed by the MRB Engineering Group. Also, resolutions are being implemented by the Waterloo Town Supervisor and Board, as well as the Waterloo Town Clerk and Account Clerk, and approved at the monthly public meetings.

The Town of Waterloo knows that there are issues within the water and sewer districts; thus, the installation of four or more master meters to identify water loss and usage are being implemented to pinpoint usage. The Town of Waterloo water and sewer maintainers are working on a project to change out any defective meters to isolate the actual water usage.

We will continue to work on the identified issues and implement changes.

Signed:

Name
Waterloo Town Supervisor

Date

7/08/2022

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 and employees and reviewed Board meeting minutes and policies to gain an understanding of the Town's operations and budget process and to determine whether the Board properly established reserves and adopted relevant policies and multiyear plans.
- We reviewed the Town's most recent audit reports, which include two previous OSC reports⁴ and the Town's last external financial audit report, to determine whether the Supervisor's records had been audited and whether the Board implemented adequate corrective action.
- We analyzed and recalculated surplus fund balance for the TW and TOV general and highway funds and water and sewer funds. We also calculated surplus fund balance as a percentage of the following year's appropriations to help evaluate the reasonableness of fund balance amounts maintained by the Town.
- We determined whether the amount of appropriated fund balance that the Board budgeted in the 2019 through 2021 fiscal years was available to fund operations and determined how much was used during the 2018 through 2020 fiscal years.
- To assess budget reasonableness and identify which categories contributed the most to budget variances, we compared detailed budget estimates to actual results for the 2018 through 2020 fiscal years for the TW and TOV general and highway funds and water and sewer funds. We also reviewed the 2021 adopted budget to determine whether trends in the Town's budgeting practices continued.
- We reviewed the CBA and compared the payment amounts to the totals that were budgeted and recorded. We also reviewed the use of these funds.
- We reviewed the Town's water agreement with the Village and Village water bills to the Town and estimated the Town's 2020 unaccounted-for water and its cost.
- We analyzed reserves and related expenditures to determine whether they were properly established, used and funded.
- We used our professional judgment to select a sample of payroll reports (all 26 payroll reports for 2019, the last payroll report of 2020 and the first payroll report of 2021) to review to determine whether the Supervisor certified the payroll. We selected the last payroll report of 2020 and the first payroll report of 2021 to also include more recent payroll reports.

⁴ See note 1.

-
- We used our professional judgment to select the July 2020 payroll for testing to determine whether the Town appropriately paid officials and employees. We also calculated annual underpayments for three individuals who were incorrectly paid in July 2020. We chose the July 2020 payroll to review a recent month prior to the start of our audit fieldwork.
 - We used our professional judgment to select the June 2020 water and sewer bills and payments for testing. We recalculated bills for a sample of 36 accounts (chosen by selecting every 20th account listed on the billing report) to determine whether they were correctly calculated. Because the majority of differences originated from accounts with estimated meter readings, we expanded our testing to review the other 101 accounts with estimated meter readings (also included in the June 2020 billing cycle) to determine whether these additional accounts were affected by a specific billing issue that we identified. We also compared water and sewer payments to bank deposits. We chose to review the June 2020 water and sewer bills and payments because it was the second billing prepared by the Town and the most recent quarter for which completed accounting records were available.
 - For water and sewer account adjustments, we reviewed bill reductions of more than \$1,000, which included nine adjustments totaling \$1.1 million, that reflected 94 percent of net reductions, that occurred during 2020 to determine whether there were documented and adequate explanations for the reductions. We chose to review the reductions that occurred in 2020 because it was the only completed year in our audit period for which the Town prepared its own water and sewer bills.
 - We reviewed the Supervisor's accounting records to determine whether they were sufficient, the Supervisor accurately recorded the Town's financial activity in a timely manner, the records had adequate supporting documentation and the Supervisor reported this information to the Board.
 - We compared the Town's AUD to the accounting records to determine whether the AUD contained inaccuracies.
 - We discussed the bank reconciliation process with the Supervisor and current account clerk and reviewed available reconciliations to determine whether the Supervisor ensured that the account clerk prepared adequate monthly reconciliations and whether the Supervisor reviewed the reconciliations and addressed identified differences. We calculated the total adjusted bank balances at year-end for the 2018, 2019 and 2020 fiscal years and compared the balances to recorded and reported cash balances.
 - We used our professional judgment to select three months in the audit period (December 2018, December 2019 and January 2020) and traced bank

statement activity to the accounting records to determine whether the activity was recorded. We chose to review these three months, in part, to verify year-end reported amounts and identify any January 2020 transactions that may pertain to 2019. We also compared the water and sewer bank account activity to the total combined water and sewer activity recorded in the accounting records for all months in 2018, 2019 and 2020 related to receipts and all months in 2019 for disbursements.

- We recalculated certain revenues, expenditures and fund balance to address identified inaccuracies in the accounting records and AUDs.

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

Office of the New York State Comptroller
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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