



Town of Nichols

Town Supervisor's Records and Reports

2022M-185 | March 2023

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Report Highlights

Town of Nichols

Audit Objective

Determine whether the former Town Supervisor (Supervisor) maintained timely, complete and accurate accounting records and reports to allow the Town Board (Board) and department heads to monitor finances and prepare adequate budgets.

Key Findings

The former Supervisor did not maintain timely, complete and accurate accounting records to allow the Board and department heads to monitor finances and prepare adequate budgets.

- Collections and disbursements totaling more than \$6.4 million were not recorded, and bank reconciliations were not completed.
- Monthly financial reports were not provided to the Board or department heads during 2020 or 2021.
- Adopted budgets were not balanced.
- Taxpayers were not treated equitably because the Board consistently levied the majority of property taxes in the town-wide (TW) funds, where additional funding was not needed due to the casino revenues and did not levy the necessary property taxes in the town-outside-village (TOV) funds.
- The Town paid additional costs of \$51,400 to have the accounting records created, the annual financial report (AFR) for 2020 and 2021 filed and the 2023 budget prepared by an accounting firm.
- Transparency was impaired because the Town's AFRs were not filed timely.

Key Recommendations

- Record collections and disbursements and reconcile accounting records to bank balances.
- Provide monthly financial reports to the Board and department heads and file AFRs timely.
- Adopt balanced budgets with appropriate real property tax levies that ensure equity among tax bases.

Town officials agreed with our findings and indicated they plan to initiate corrective action.

Background

The Town of Nichols (Town) is located in Tioga County and includes the Village of Nichols within its borders. The Town is governed by the elected five-member Board composed of the Supervisor and four Board members. The Board is responsible for the general oversight of the Town's operations and finances.

The Supervisor is the Town's chief financial officer and the Board-appointed budget officer. The Supervisor is responsible for ensuring day-to-day financial activities are recorded in the accounting system and, along with department heads, the development of the tentative budget.

Quick Facts

Population	2,525
2022 Appropriations	\$2.3 million
2022 Real Property Taxes	\$230,175

AFR Filings

Year	Filed (Yes/No)	Days Late
2020	Yes	347
2021	Yes	214

Audit Period

January 1, 2020 – February 28, 2022.

We extended our audit period to December 31, 2017 to calculate interfund transfers and forward to December 13, 2022 to determine whether the 2021 AFR was filed and calculate the amount paid to the accounting firm.

Town Supervisor Records and Reports

The former Supervisor appointed a bookkeeper to maintain the accounting records, reconcile bank accounts, prepare monthly financial reports and file the AFR with the Office of the New York State Comptroller (OSC).

The Town had three bookkeepers during our audit period. In addition, the former Supervisor was in office through our entire audit period. At the August 24, 2022 regular Board meeting, the former Supervisor submitted his resignation effective August 31, 2022. The former Supervisor appointed the current bookkeeper in August 2021.

The Town is atypical because there is a casino located in the Town from which it receives casino revenues. The Town received shares of casino revenues totaling \$690,625 during 2020 and \$1.4 million during 2021. These revenues are town-wide revenues and should be used only for town-wide tax base expenditures.

How Should a Town Supervisor Record and Report Financial Information?

Town supervisors (supervisor) are responsible for maintaining accurate financial accounting records that summarize a town's financial activity and must ensure the accounting records document the assets, liabilities, fund balance and results of operations (revenues and expenditures) for each town fund. A supervisor should ensure monthly bank reconciliations are performed to verify that all collections and disbursements are properly recorded and provide a way to identify, correct and document differences between a town's accounting records and bank transactions.

If a supervisor has appointed a bookkeeper to record financial transactions and complete bank reconciliations, the supervisor is still responsible for the accuracy and timeliness of the financial records. As such, the supervisor should provide sufficient oversight, such as reviewing bank reconciliations, to ensure the bookkeeper maintains suitable records, documents financial information accurately and timely and provides useful reports to the town board. The records and reports should provide sufficient detail to ensure that revenues and expenditures, as budgeted and collected or expended, are recognized and recorded in the proper fund. These reports are essential to assist a supervisor and a town board in monitoring financial operations and making necessary and effective financial decisions.

Supervisors must submit their accounting records to the town board on or before January 20th for all money received and disbursed during the prior year so that the town board may conduct its required audit of the supervisor's records. Additionally, supervisors of towns with populations less than 5,000 must file the town's AFR with OSC within 60 days of the end of a town's fiscal year end or

request an extension which, if granted, would provide a 60-day extension. This report provides the town board, OSC, taxpayers, residents and other interested parties with a tool to monitor and evaluate financial operations.

The Former Supervisor Did Not Provide Adequate Oversight and Accounting Reports Were Not Completed in a Timely Manner

The former Supervisor delegated most of his financial duties to the bookkeepers, including maintaining the accounting records, preparing and making deposits, and preparing bank reconciliations, checks for disbursements and monthly and annual financial reports, without adequate oversight. However, prior to the current bookkeeper, the former bookkeeper and former Supervisor did not maintain any accounting records (i.e., collections and disbursements were not recorded) or prepare bank reconciliations during 2020 and 2021. Due to the former Supervisor's lack of oversight, the only duties carried out by the former bookkeeper were making deposits, processing payroll and preparing checks for the former Supervisor's signature.

For example, in 2021, more than \$3.3 million in deposits and more than \$3.1 million in disbursements were not recorded. Additionally, for 2021, the general fund checking account was the primary account used for expenditures for all funds¹ acting as a de facto multi-fund checking account with no account coding of expenditures on claim vouchers to decipher which fund or department incurred the expenditure.

Beginning in January 2022, the current bookkeeper began using an accounting system to record transactions and prepare bank reconciliations. However, the former Supervisor still did not provide oversight by reviewing the bookkeeper's work.

Accounting records were not maintained due to the turnover in the bookkeeper's office, and one of the former bookkeepers did not have any experience with municipal accounting. The former Supervisor told us that he was given copies of each transaction the bookkeeper executed, and he relied on the bank to notify him if anything fraudulent was occurring. However, the bank is not responsible for detecting fraud for the Town.

Because accounting records were not maintained, the former Supervisor was unable to provide monthly or annual records or reports to the Board to allow it to monitor the Town's finances throughout the audit period² or conduct the required annual audit. Additionally, the Town hired an accounting firm for

1 These funds include the general town-wide, general town-outside-village, highway town-wide, highway town-outside-village, water, sewer and library.

2 The current bookkeeper started to provide monthly financial reports, such as budget-to-actual reports and balance sheet reports to the Board and department heads as of February 2022.

accounting services and support, including creating the accounting records, filing the AFR with OSC for 2020 and 2021 and preparing the budget for 2023, at a cost of approximately \$51,400. If the former Supervisor ensured the records were complete and the AFR was filed, the Town would not have incurred these expenditures.

As a result of the lack of bookkeeping and oversight, we reviewed all bank statements and canceled check images for signatures, transfers, checks written to cash, withdrawals of cash, and checks written to vendors that could be for personal purposes. We did not identify any material findings.

Most of the Town's revenues are received in the form of a direct deposit. We reviewed source documents for expected revenues, such as New York State funding, for 2021 totaling over \$1.7 million and traced those deposits to Town bank accounts with no discrepancies. Additionally, we obtained sales tax payment information for 2021 from Tioga County and traced those deposits totaling over \$300,000 to Town bank accounts with no discrepancies.

Although our testing did not identify any irregularities, without sufficient oversight to ensure records, reports and bank reconciliations were accurate, complete and timely, Town funds were at an increased risk of errors, theft, misuse or abuse that would remain undetected or uncorrected.

The Former Supervisor Did Not File the Required AFRs

The former Supervisor did not file the 2020 and 2021 AFRs with OSC in a timely manner. The 2020 AFR was filed 347 days late and the 2021 AFR was filed 214 days late. Because the AFRs were not filed in a timely manner, Town officials are not being transparent because they are taking away the residents and taxpayers' ability to review these reports. In addition, the Board's ability to conduct and monitor financial affairs and make sound financial decisions is impaired.

What Is an Effective Budget Process?

An effective budget process ensures the most current and accurate information available is used to develop a final budget that is balanced: the total financing sources from estimated revenues, appropriated fund balance and appropriated reserves equals the amount of appropriations for expenditures. An effective budget process also requires a team effort to not only develop the budget but also monitor and amend it, as needed. For example, department heads are responsible for providing the budget officer with accurate financial information relevant to their department's operation.

The budget officer generally is responsible for preparing the tentative/proposed budget and presenting it to the town board. To aid in budget development, the

budget officer should give estimate forms to department heads. Those forms should include all revenue and expenditure account codes used in the previous two years along with the actual and budgeted estimates for the previous fiscal year and year-to-date totals for the current year. The forms should also include space for the department head to explain or justify new types of proposed revenues or expenditures or significant changes in the amounts proposed for the upcoming year.

Town boards are responsible for accurately estimating revenues and appropriations (budgeted expenditures) in a town's annual budget. A board should also ensure that recurring revenues are sufficient for recurring expenditures rather than relying on one-shot, or non-recurring, revenues to be used for recurring expenditures. If the tentative budget projects a planned budgeting deficit, a board may appropriate a portion of unrestricted fund balance (appropriated fund balance) as a financing source in the next year's budget to reduce the tax levy. Accurate and complete accounting records are necessary to enable a town board and department heads to use historical and known financial trends so a town board can adopt reasonable, realistic and balanced budgets and monitor performance throughout the year. In a balanced budget, total appropriations less the total financing sources from estimated revenues, appropriated reserves and appropriated fund balance equal the total amount to be raised by taxation (Figure 1).

Towns with a village have two separate tax bases: town-wide (TW) and town-outside-village (TOV). The TW tax base encompasses the entire town (including the village), whereas the TOV encompasses only the portion of the town that lies outside of the village.

Revenues intended or prescribed for one tax base cannot be transferred to or used for expenditures in the other tax base. If transfers between funds within the same tax base are included in the budget, the total amount of budgeted transfers in should match the total amount of budgeted transfers out. If money from one fund is temporarily advanced to another fund (interfund advance), it must be repaid before the end of the fiscal year. To maintain equity among taxpayers, towns with a village are required to finance expenditures for town road repairs and improvements by the TOV tax base because village roads and streets are maintained at the expense of village taxpayers.

Figure 1: Example of Balanced Budget

Total Appropriations
Less: Estimated Revenues
Less: Appropriated Reserves
Less: Appropriated Fund Balance
Equals: Amount To Be Raised By Taxation

Budget Request Forms Were Inadequate and Inaccurate

Each year in September, the former Supervisor, as budget officer, gave each department head a budget request form, which includes the department’s current year appropriation, to fill out for the next year’s requested appropriations. The forms were not sufficient because they did not include all account codes the respective department head was responsible for, year-to-date and past year’s expenditures or accurate budgeted amounts of the current year’s budget. Due to the inadequacies identified with the budget request forms used by the former Supervisor to develop the tentative budget, department heads and the former Supervisor were not able to estimate realistic appropriations.

In addition, the budget worksheets presented to the Board were inaccurate. For example, the September 1st actual year-to-date amounts on the budget worksheets had not been updated since at least 2019 (2020 budget year). As a result, the Board adopted an erroneous 2021 sales tax revenue figure of \$110,000 which was based on the budget worksheet, which incorrectly included year-to-date sales tax revenue of \$86,000 as opposed to the \$162,300 that the Town had actually received.

With insufficient budget request forms provided to and from department heads, combined with non-existent accounting records, the Board and department heads could not develop a balanced and reasonably estimated budget.

Adopted Budgets Were Not Balanced

The Board adopted budgets that were not balanced (Figure 2) because the former Supervisor and Board did not understand that budgets should be balanced.

Figure 2: Summary of Unbalanced Budgets

Tax Base (General and Highway Funds Combined)	Total Appropriations and Interfund Transfers Out	Total Budgeted Revenues and Other Funding Sources	Difference
2020			
Town-Wide	\$1,934,650	\$2,190,506	\$255,856
Town-Outside-Village	\$1,162,250	\$1,368,275	\$206,025
2021			
Town-Wide	\$1,429,400	\$1,439,400	\$10,000
Town-Outside-Village	\$463,000	\$559,025	\$96,025
2022			
Town-Wide	\$1,570,200	\$2,213,076	\$642,876
Town-Outside-Village	\$709,000	\$712,625	\$3,625

As a result, real property taxes were levied in certain funds even though the Town budgeted for surpluses in those funds for most years before the tax levy was factored in. For example, in 2022, the Board adopted a budget that appropriated fund balance of \$383,040 and levied \$228,200 in real property taxes in the TW funds when it already had a budgeted surplus within this tax base before appropriating fund balance or including a tax levy. These budgeted surpluses occurred as a result of the significant casino revenues the Town receives, budgeted interfund transfers and appropriated fund balance. Unless the budgeting practices change, these issues are likely to continue.

Budgeted Transfers In Did Not Equal Budgeted Transfers Out

For 2020 through 2022 (all funds), budgeted interfund transfers in totaled approximately \$1.75 million while budgeted interfund transfers out totaled \$15,000 (Figure 3).

Figure 3: Summary of Budgeted Interfund Transfers (All Funds Combined)

Budgeted Transfers	2020	2021	2022	Totals
In	\$1,011,000	\$321,000	\$421,000	\$1,753,000
Out	\$5,000	\$5,000	\$5,000	\$15,000

The majority of these transfers in were in the TOV highway fund’s budget.³ Although these transfers in within this fund were not offset by transfers out, the TOV general fund – the only fund within the same tax base that could legally make such transfers to the TOV highway fund – did not have sufficient fund balance available to cover the budgeted transfers in.

Town Officials Did Not Maintain Equity Among Taxpayers and Levied Taxes in the Incorrect Tax Base

From 2017 through 2019, Town officials reported interfund transfers on the AFRs from TW funds to TOV funds totaling \$1.9 million, which is not an acceptable practice because it crosses tax bases. Although Town officials discontinued this practice of making and reporting interfund transfers across different tax bases in 2020 and 2021, officials instead began reporting interfund advances owed from TOV funds to TW funds. As of December 31, 2021, officials reported that the TOV highway fund owed other funds \$553,380. In addition, for 2020 and 2021, Town officials inaccurately attributed TOV highway fund expenditures totaling over \$1 million to the TW highway fund.

Board meeting minutes included discussions indicating amounts to be spent on paving and road repairs (a TOV tax base expenditure) were contingent on

³ The TOV highway fund’s budgets included interfund transfers in of \$900,000; \$300,000; and \$300,000 in the 2020, 2021 and 2022 budgets, respectively.

the amount of casino revenues received (a TW tax base revenue). The former Supervisor stated he was unaware that casino revenues could not be used for TOV fund expenditures. As a result, the Board consistently levied the majority of its real property taxes in the TW funds, where additional funding was not needed due to the casino revenues received by the Town which can only be used for TW expenditures and did not levy the necessary real property taxes for needed road repairs and maintenance in the TOV funds. After reclassifying the inaccurately attributed TOV highway fund expenditures in 2020 and 2021, the TW funds levied real property taxes of \$453,020 and generated operating surpluses totaling \$1.6 million, and the TOV funds levied real property taxes of \$9,200 and incurred operating deficits totaling \$1.0 million. Moreover, with real property tax revenues removed for all funds in 2020 and 2021, the TW funds and TOV funds combined had overall operating surpluses totaling approximately \$90,000.

Because Town officials adopted budgets that were not balanced and included unbalanced interfund transfers, combined with making interfund transfers and advances across tax bases and attributing expenditures to the incorrect tax base, officials raised taxes in the incorrect funds which resulted in an inequity to TW taxpayers.

What Do We Recommend?

The Board should:

1. Require the Supervisor to provide it with monthly financial reports that can be reviewed and used to make informed financial decisions.
2. Audit or provide for an audit of the Supervisor's financial records and reports on an annual basis.
3. Develop and adopt balanced budgets with realistic estimates of revenues and expenditures based on historical trends, prior-year actual results and known changes and appropriate real property tax levies that ensure equity among tax bases.
4. Ensure budgeted interfund transfers are balanced.
5. Consult with the Town Attorney to ensure casino revenues are used for appropriate Town purposes.

The Supervisor should:

6. Ensure the bookkeeper is maintaining complete, accurate and timely accounting records and financial reports, including bank reconciliations.
7. Review bank reconciliations prepared by the bookkeeper.

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8. Provide the Board with monthly financial reports including budget-to-actual reports.
 9. Ensure AFRs are filed with OSC timely.
 10. Revise the budget forms given to the department heads for their budget estimates to include all revenue and expenditure account codes used in the previous two years along with the actual and budgeted estimates for the previous fiscal year and year-to-date totals for the current year.
 11. Discontinue the practice of making interfund transfers and interfund advances across tax bases.
 12. Repay all interfund advances before the close of the fiscal year.
 13. Ensure expenditures for road repairs and improvements are recorded in, and funded by, the TOV highway fund.

Appendix A: Response From Town Officials



TOWN OF NICHOLS

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Esther Woods, Supervisor

March 10, 2023

New York State Comptroller Office
44 Hawley Street Room 1702
Binghamton, NY 13901

Regarding Town of Nichols Audit December 31,2017 to February 28,2022

To Whom It May Concern:

The Town of Nichols has received New York State's Audit and we understand the concerns and problems outlined in the New York State report. The Town of Nichols is taking a quick response and will make all the recommended corrections per New York State's Audit.

Esther Woods
Town of Nichols Supervisor

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 reviewed all 2021 bank statements and canceled check images for signatures, checks written to cash, inappropriate transfers, cash withdrawals and checks for personal expenditures.
- We reviewed the 2021 New York State payments from the Open Book New York website and traced them to deposits in Town bank accounts.
- We reviewed bank statements to determine the actual sales tax revenues received and deposited during the audit period.
- We reviewed AFRs submitted to OSC to analyze interfund transfers, interfund advances and expenditures and to calculate the number of days late they were filed.
- We interviewed Town officials and reviewed Board meeting minutes and policies to gain an understanding of the Town's budget development process and financial accounting, reporting and oversight practices, including whether annual audits of the former Supervisor's records were performed and whether AFRs were filed timely.
- We reviewed budget request forms used by the former Supervisor and department heads.
- We reviewed the 2020 through 2022 adopted budgets to determine whether they were balanced and adequately developed using accurate and current data.

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 Town 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 on the Town's website.

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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