



Town of Preble

Non-Payroll Disbursements

2023M-17 | May 2023

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Report Highlights

Town of Preble

Audit Objective

Determine whether the Town of Preble (Town) Board (Board) and Town Supervisor (Supervisor) provided adequate oversight of non-payroll disbursements.

Key Findings

The Board and Supervisor did not provide adequate oversight of non-payroll disbursements. As a result, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected. Specifically:

- Town officials did not adequately segregate the bookkeeper's duties or implement mitigating controls.
- The Board could improve its annual audit of the Supervisor's records and reports.

Key Recommendations

- Segregate duties over the non-payroll disbursements process or implement effective mitigating controls to ensure all non-payroll disbursements are for legitimate Town purposes.
- Conduct a thorough annual audit including reviewing bank reconciliations, bank statements, canceled check images and supporting documentation for disbursements.

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

Background

The Town is located in Cortland County. The Town is governed by an elected five-member Board including the Supervisor. The Board is responsible for the general management and oversight of Town operations, including overseeing non-payroll disbursements.

The Supervisor serves as the chief fiscal officer responsible for the day-to-day operations. The Supervisor appointed a bookkeeper who records and reports the financial transactions and prepares checks for disbursement.

Quick Facts

2022 Appropriations	\$886,476
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Non-Payroll Disbursements in Audit Period

Number	644
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Amount	\$847,867
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Non-Payroll Disbursements Reviewed

Number	202
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Amount	\$216,800
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Audit Period

January 1, 2021 – June 30, 2022. We extended our audit period through August 31, 2022 to determine whether certain checks had cleared the bank.

Non-Payroll Disbursements

How Should Town Officials Provide Oversight Over Non-Payroll Disbursements?

Town boards should establish and implement procedures to provide reasonable assurance that disbursements are authorized, supported by appropriate documentation and for legitimate town purposes. This includes ensuring that all claims are properly audited and paid only after board approval.

If a town supervisor delegates certain duties to a bookkeeper, the supervisor is still responsible to provide oversight of these duties. Town officials should adequately segregate duties so that one employee does not control all phases of a transaction. If limited resources make it difficult to segregate duties, town officials should implement compensating controls. For example, a board, town supervisor or other town official separate from the non-payroll disbursement process should review monthly bank reconciliations, bank statements, canceled check images and electronic transfers to detect and correct any errors and inconsistencies.

Town Officials Did Not Provide Adequate Oversight Over Non-Payroll Disbursements

The Board and Supervisor did not adequately segregate the bookkeeper's duties or implement mitigating controls. Although the Supervisor signed checks presented to him for payment, the bookkeeper performed virtually all other aspects of the non-payroll disbursements process with limited oversight, including maintaining the check stock and preparing the checks for disbursement, making electronic bank transfers, preparing bank reconciliations, recording transactions in the accounting records and preparing financial reports for the Board. Although the Board received monthly financial reports, neither the Board, Supervisor nor other Town officials reviewed bank statements, canceled check images, bank reconciliations or electronic transfers to ensure financial activities were proper.

We examined 202 non-payroll disbursements totaling \$216,800; other than minor discrepancies which we discussed with Town officials, disbursements were supported, for appropriate Town purposes and approved by the Board prior to payment. We also reviewed all bank transfers totaling \$1.5 million made during our audit period and determined they were appropriately deposited into another Town bank account. Additionally, we identified all gaps in check sequences for our audit period and determined they were for legitimate purposes and did not clear the Town's bank accounts as of August 31, 2022.

However, because no Town official reviewed the bank reconciliations, bank statements, canceled check images or electronic transfers, the risk remains that inaccurate or inappropriate disbursements could be made without their knowledge.

The Board and Supervisor did not adequately segregate the bookkeeper's duties or implement mitigating controls.

Why Should the Board Perform Annual Audits?

Town boards must comply with New York State Town Law Section 123, which requires them to annually audit, or cause to be audited, the books, records and documents of certain municipal officers and employees responsible for receiving and disbursing money. This periodic audit of the financial details of departmental operations should be thorough and, when done properly, can provide board members with an understanding of those operations, which is essential to effective oversight. The annual audit process is an integral part of a town's system of checks and balances. An audit helps determine whether public money is being spent and handled properly, can identify conditions in need of improvement and provides oversight of financial operations.

At a minimum, an annual audit should include a thorough review of the cash disbursements journal, the prenumbered check stock, bank reconciliations, bank statements, canceled check images, supporting documentation for disbursements and any financial reports.¹ Annual audits are particularly important when one individual is able to perform virtually all aspects of a town's financial transactions.

The Board Could Improve Its Annual Audit Process

The Board meeting minutes indicate that the Board conducts an annual audit of the bookkeeper's checkbooks. The Supervisor and Board members told us that the Board's audit consists of reviewing bank account balances and checkbook registers; however, the Board does not review bank reconciliations or bank statements or compare canceled check images to supporting documentation for disbursements.

When the Board does not review these records, and one person is responsible for a majority of the disbursements process, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

What Do We Recommend?

The Board and Supervisor should:

1. Segregate duties over the disbursements process or implement effective mitigating controls, such as reviewing bank reconciliations, bank

The annual audit process is an integral part of a town's system of checks and balances.

¹ Our Office has a publication available on our website entitled Fiscal Oversight Responsibilities of the Governing Board (https://www.osc.state.ny.us/files/local-government/publications/pdf/fiscal_oversight.pdf) which contains checklists to assist governing boards in performing an annual audit.

statements, canceled check images and electronic transfers, to ensure all disbursements are for legitimate Town purposes.

The Board should:

2. Conduct a thorough annual audit including reviewing bank reconciliations, bank statements, canceled check images and supporting documentation for disbursements.

Appendix A: Response From Town Officials

**TOWN OF PREBLE
PO BOX 234
PREBLE NY 13141**

April 27, 2023

Office of the State Comptroller

The Preble Town Board has reviewed the preliminary findings of the New York State audit and will be developing a plan to address the oversight issues that were discovered during the audit.

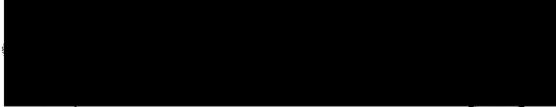
The Preble Town Board and/or the town supervisor will:

1. Review and implement effective mitigating controls such as reviewing bank statements and reconciliations, canceled check images or electronic transfers, to ensure all disbursements are for legitimate town purposes, in order to make certain the accuracy of the bookkeeper's reconciliation of the bank accounts and other areas that were discussed as part of the audit.
2. Conduct a thorough end of the year audit, which would include reviewing bank reconciliations, statements, canceled check images and any supporting documentation for disbursements.

These actions will help to ensure that the Town of Preble's financial records will be accurate with a high degree of confidence.

Sincerely,

James Doring



Preble Town 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 interviewed Town officials and reviewed various financial records and reports and Board meeting minutes to gain an understanding of the non-payroll disbursements process. Such reports included the bookkeeper's process for maintaining accounting records, reports provided to the Board and the Board's oversight of financial operations.
- We reviewed 132 disbursements totaling \$149,293 for 2021 and 70 disbursements totaling \$67,507 for 2022 to determine whether the payee and amounts agreed between the canceled check images and Board-approved abstracts of audited claims, and whether there was evidence of audit and approval prior to payment.
- We scanned all bank statements and canceled check images for the audit period and identified any withdrawals and transfers to determine whether they were for appropriate Town purposes and whether transfers were made to other Town bank accounts. We did not identify any withdrawals, and we reviewed all electronic transfers totaling \$1.5 million.
- We reviewed check sequences for the audit period to identify any gaps and determine the cause.
- We reviewed bank reconciliations to determine whether they were accurate and timely.

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

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

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