



Town of Junius Supervisor's Records and Reports

Report of Examination

Period Covered:

January 1, 2016 - July 21, 2017

2017M-168



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2017

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Junius, entitled Supervisor's Records and Reports. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of Junius (Town) is located in Seneca County (County) and has a population of approximately 1,500. The Town provides various services to its residents, including water, street maintenance, snow removal and general government support. Most of the expenditures incurred in providing these services are accounted for in the general, highway and water funds. The Town finances these services primarily from real property taxes, State aid, user fees and court revenues. The Town's total budgeted appropriations were approximately \$1.18 million for 2016 and \$1.26 million for 2017.

The Town is governed by an elected Town Board (Board) which is composed of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor, who serves as the chief executive and financial officer, is responsible for the day-to-day management of the Town, including maintaining the Town's financial records and reports. Similar to previous supervisors, the current Supervisor¹ appointed a secretary to assist with these duties. The secretary served until her resignation in June 2016. The Supervisor then appointed the daughter of another Board member, who had no previous municipal accounting experience, as his secretary (Secretary); a position which she held until a new secretary was appointed during the fieldwork stage of this audit on June 21, 2017.

Objective

The objective of our audit was to assess the Supervisor's maintenance of financial records and reports. Our audit addressed the following related question:

- Did the Supervisor maintain adequate financial records and reports?

Scope and Methodology

We examined the Supervisor's financial records and reports for the period January 1, 2016 through July 21, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire

¹ The current Supervisor was elected in November 2015 and took office in January 2016.

population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of Local Officials
and Corrective Action**

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they have initiated corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Supervisor's Records and Reports

To appropriately manage Town operations, financial data must be complete, accurate and current. The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions, including maintaining accounting records, performing monthly bank reconciliations, providing monthly financial reports to the Board and filing an annual financial report or annual update document (AUD) and the Town's tax cap calculation with the Office of the State Comptroller (OSC). If the Supervisor assigns these duties to another individual or third party, he should provide sufficient oversight to ensure that the records maintained are accurate, complete and up-to-date, so that reliable reports may be generated. Regardless of whether or not duties are assigned to another individual or party, the Supervisor has ultimate responsibility for the duties his office is tasked with.

The Supervisor did not properly maintain the financial records and reports. The Supervisor relied on the Secretary to perform most of the financial transactions without providing adequate oversight. Consequently, the records are incomplete and not up-to-date, and are therefore, unreliable. Furthermore, the Supervisor did not provide the Board with the necessary financial reports to adequately monitor operations, and did not file the required reports with the appropriate agencies, including OSC and the Internal Revenue Service (IRS).

Accounting Records

It is essential for the Supervisor to have an accounting system in place to allow for the proper recording of all Town transactions and generate accurate financial reports, so the Board can effectively exercise its oversight responsibilities. Adequate accounting records consist of timely maintained journals, ledgers and other financial documents that provide a record of all transactions and account balances. Without adequate accounting records, Town officials are unable to develop meaningful budgets and ensure adequate appropriations are available from which to expend funds. In addition, the Supervisor should perform monthly bank reconciliations to ensure the timely identification and investigation of differences between cash balances recorded in the accounting records and the bank balances.

The Supervisor relinquished most of his financial duties to the Secretary and failed to provide adequate oversight. Consequently, the Town's financial records were not maintained, including the general ledger, receipt and disbursement journals, subsidiary revenue and expenditure ledgers or any cash control accounts that show cash transactions and balances. Additionally, separate accounting records were not maintained for the new highway barn capital project started in 2016. Although the Town has a computerized accounting system, it was used primarily to process payroll and print payroll checks.

The Supervisor did not possess the knowledge to use the financial software, or of municipal accounting in general, and did not afford himself or the Secretary proper training to ensure records were maintained properly. Furthermore, due to the lack of available records, the Board developed the 2017 budget without having actual prior year results. Therefore, it is unlikely that the budget developed for 2017 was either accurate or meaningful. Due to the lack of financial information, the Supervisor, the Board and the public have no way of knowing how the budget compares to the actual results of the Town's operations.

Because the Supervisor could not locate bank records, such as monthly statements and cancelled checks, he needed to obtain copies of this information from the bank for our audit. We performed a cursory review² of the bank statements, which included cash disbursements, and noted cash balances totaling approximately \$1.2 million as of May 31, 2017. However, because Town records were not adequately maintained this balance could not be reconciled with Town records.

We also noted several issues likely resulting from insufficient accounting records:

- Court ordered child support payroll withholdings, while properly withheld from an employee's paycheck, were not reported and remitted to the NYS Child Support Processing Center in a timely manner.³
- Monthly Justice Court invoices were not always paid timely despite money having been properly turned over to the Supervisor by the Justices (e.g., February and March 2017 invoices, as of May 31, 2017, were 60 and 30 days overdue).
- There were several insufficient fund notices from the bank due to overdrawn accounts.

Interim and Annual Reports

According to Town Law, the Supervisor is required to provide the Board with a detailed statement of all money received and disbursed during the month. Good management practices also require the Supervisor to provide the Board with monthly financial reports showing cash balances, monthly bank reconciliations and budget to actual results for revenues and expenditures. Such a report would allow the Board to effectively monitor operations by comparing

² Reviewed for the period January 1, 2016 through May 31, 2017.

³ Employers must remit payments withheld for child support to the NYS Child Support Processing Center within seven working days of the date of withholding (the pay date). Payments may be sent by check or submitted electronically via EFT/EDI.

actual revenue and expenditure results with the amounts budgeted. Detailed financial reports also enhance the Board's ability to oversee financial activities.

Additionally, Town Law requires the Supervisor to present his books and records to the Board for audit within 20 days of the end of the fiscal year and to prepare and file an AUD with the Clerk and OSC within 60 days after the end of the fiscal year. The AUD allows management and the general public to assess the Town's financial operations and financial condition. The Town is also required to comply with tax cap provisions under Real Property Tax Law, and file its tax cap calculation annually with OSC. Furthermore, there are certain reports required by federal and local governments which the Town must file regularly with the appropriate agencies.

The Supervisor generally has not prepared or maintained financial reports as required by law or best practices. Specifically:

- The Board was not provided a monthly Supervisor's report or budget to actual reports.
- The 2016 AUD was not filed as of June 2017. Due to the lack of accounting records, the Town's hired certified public accountant (CPA) has been unable to file the AUD because of incomplete financial information. The CPA filed an extension on behalf of the Town, but the AUD was not filed prior to the extension deadline as records remained incomplete.
- The 2017 tax cap calculation was not filed with OSC. The Supervisor stated that he was unaware of this reporting requirement.
- Reports to the Employee Retirement System (ERS) were filed late for eight of the 16 months during the audit period.
- The 2016 quarterly payroll reports were not appropriately remitted to the IRS and after several unsuccessful attempts by the IRS to resolve the matter via written correspondence, an IRS agent had to visit the Town.
- The 2016 and 2017 payrolls were not certified with the County Civil Service department.
- The Board has not conducted an audit of the Supervisor's 2016 accounting records in accordance with Town Law.

On multiple occasions, the Supervisor stated that he was unaware of reporting requirements or that he believed the secretary had

taken care of the reports as required. The Supervisor also blamed the IRS non-filings and the non-remittance of court ordered child support payments on postal irregularities. Contrary to his claims, an unremitted check for child support withholdings from the June 19, 2017 payroll was discovered in his office on July 10, 2017 by the new secretary. In addition, neither the Supervisor, nor Secretary attended training on records or reporting requirements, which the Supervisor stated is typically too costly and/or held at locations which do not allow for Town official's convenient participation.⁴

The Supervisor's failure to provide effective oversight of his office and lack of complete and effective financial reports hindered the Board's ability to make informed decisions, oversee financial activities and monitor the Town's budget. In addition, by failing to remit reports as required, the Town risks incurring additional penalties and fees for late payments as well as causing unwarranted angst for employees. Furthermore, there is an increased risk that errors and irregularities could occur and remain undetected and uncorrected.

Recommendations

The Supervisor should:

1. Maintain accurate, complete and up-to date accounting records.
2. Prepare bank reconciliations and submit to the Board for its review.
3. Provide the Board with monthly reports that include an accounting of all cash receipts and disbursements, cash balances and budget-to-actual results for each fund.
4. Submit accurate and timely financial reports to OSC, or other appropriate reporting agencies, the Clerk and the Board, and ensure that the reports are fully supported by the accounting records.
5. Submit the books and records to the Board for audit within 20 days of the end of the fiscal year.
6. Submit payrolls to the County Civil Service department for review and approval.

⁴ OSC offers a variety of in-person trainings at various times and locations throughout the State. Additionally, a number of webinars are hosted throughout the year with many previous offerings available on-demand. Many of these training opportunities are offered at little to no cost to local officials. Further OSC's website contains a vast amount of educational materials available for free download to any interested party.

7. Attend training for financial accounting and reporting.⁵
8. Ensure the secretary is adequately trained for financial accounting and reporting.
9. Properly oversee the work of the secretary.

The Board should:

10. Ensure it requests and receives the appropriate reports to monitor the Town's financial operations, and that reports are generated and filed as required by law.
11. Conduct an annual audit of the Supervisor's records in accordance with Town Law.

⁵ <http://www.osc.state.ny.us/localgov/academy/index.htm>

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The Local officials' response to this audit can be found on the following page.

**Town of Junius
655 Dublin Road
Clyde, NY 14433
(315) 539-4667**

September 7, 2017

Office of the State Comptroller
Mr. Edward V. Grant Jr., Chief Examiner
The Powers Building
16 W. Main Street-Suite 522
Rochester, NY 14614

Dear Mr. Grant:

This letter is in response to the preliminary draft findings of your department's recent examination of the Town of Junius Supervisor's Records and Reports, period covering January 1, 2016 - July 21, 2017, Report #2017M-168.

The findings and recommendations will be used as a tool to better manage the Town of Junius.

The Town of Junius has started a correction action plan by a thorough review of all accounts, funds and transactions and has begun to re-enter all work for 2016. Once this task is completed, we will be maintaining accurate, complete, and up-to-date financial records on file and for the Town Board to review in the required time frame. We are training staff on our computer system and will be utilizing training in our area. We have hired the assistance of Paul Wagner and Lee Walters, CPA, to guide us through this.

In closing, I would comment that I concur with the audit findings and would like to thank your staff for the audit performed. Your staff was very professional and helpful explaining the process and I appreciate their efforts to identify opportunities for improving the operations and governance of the Town of Junius.

Respectfully,

Gregory Wadhams
Town of Junius Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials and employees to obtain an understanding of the Town's internal controls and financial operations, specifically related to records and reporting.
- We reviewed Board minutes and interviewed Board members to determine the Board's oversight of the Supervisors' records, including whether or not an annual audit is done.
- We requested all manual and/or computerized accounting records, receipts and claim abstracts with supporting documentation, to determine if records existed and whether these records were complete, organized and reliable.
- We reviewed correspondence related to reporting issues identified (as available), as support for verbal assertions provided.
- We interviewed third party stakeholder's to verify various statements made by Town Officials.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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