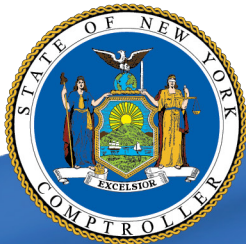


Town of Kirkwood

Board Oversight

JULY 2018



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

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Report Highlights

Town of Kirkwood

Audit Objective

Determine whether the Supervisor and Board provided adequate oversight of Town financial operations.

Key Findings

- The Supervisor and Board are not providing adequate oversight of the Town’s financial operations.
- The Board has not performed an annual audit of the Supervisor’s records.

Key Recommendations

- Provide adequate oversight by ensuring an independent party periodically reviews bank reconciliations and canceled check images; third party documents; and water and sewer billing adjustments.
- Perform, or cause to be performed, the required annual audit of the Supervisor’s records.

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

Background

The Town of Kirkwood (Town) is located in Broome County. The Town is governed by an elected Town Board (Board) composed of four Board members and a Supervisor. The Supervisor is the Town’s chief executive and chief fiscal officer. The Supervisor hired a bookkeeper who handles the day-to-day financial operations. The Town also contracts with a certified public accounting firm to provide “controller-type services” to the Town. The individual who performs these services functions as the Budget Officer and is responsible for overseeing the bookkeeper’s work.

Quick Facts

Population	5,800
2018 Appropriations	\$3,404,555

Audit Period

January 1 – December 31, 2017

Board Oversight

What Are the Supervisor's and Board's Oversight Responsibilities?

A supervisor is responsible for collecting, receiving and having custody of all money belonging to or due a town. While the supervisor can hire a bookkeeper or contract with vendors to assist with these duties, the supervisor is responsible for ensuring that only proper town expenditures are made and all receipts are deposited. Therefore, the supervisor should provide adequate oversight by periodically reviewing the supporting documentation for receipts and disbursements.

Town Law requires a board to annually audit the supervisor's records and reports¹ to provide assurance that public funds are handled properly, identify conditions that need improvements and provide oversight of financial operations.

The Supervisor and Board Are Not Providing Adequate Oversight

The Supervisor and Board delegated their oversight duties to the Budget Officer, who is contracted through a certified public accounting (CPA) firm. However, the Budget Officer is the bookkeeper's spouse, and the Board and Supervisor do not provide compensating controls to account for this relationship.

The bookkeeper records the Town's financial activity, makes deposits and reconciles the bank accounts. The Supervisor signs checks and reviews payroll reports. The Board audits the claims presented on the abstracts monthly. The Budget Officer reviews bank reconciliations and performs analytical reviews of revenues and expenditures. However, the Supervisor does not oversee the Budget Officer's work by reviewing supporting documentation, and the Board does not perform an annual audit of the Supervisor's records and reports. Therefore, no one independent of the recordkeeping, deposit and bank reconciliation processes is periodically or annually reviewing check images or ensuring that all disbursements are presented to the Board for approval, all water and sewer billing adjustments are proper and all receipts are deposited.

The Supervisor is not overseeing the work done in his office because he relied on the Budget Officer to perform this duty. The Board is not performing an annual audit because it also relied on the Budget Officer. However, the contract with the Budget Officer's CPA firm does not include audit services and the Budget Officer does not perform audit duties. Further, because of the spousal relationship with the bookkeeper, the Budget Officer should not be solely responsible for overseeing her work or performing audit functions.

¹ Section 123

Tests of Financial Transactions Revealed No Significant Problems

We verified all disbursements in our scope period totaling \$6.2 million were recorded in the accounting system and approved by the Board. Further, we selected November 2017 claim packets and found they were reviewed by the Board and had sufficient documentation attached for the Board to conduct a proper audit. We also tested the receipts of all major revenue sources totaling \$5.4 million (86 percent) and found they were recorded and deposited. Finally, we reviewed all eight adjustments reducing water and sewer bills totaling \$734 and found none were properly supported or presented to the Board for approval. A \$686 adjustment reduced the amount of the customer's bill and seven adjustments totaling \$48 were to forgive penalties. We confirmed the water and sewer department requested the \$686 adjustment.

Although our testing did not reveal any significant errors or irregularities, without proper oversight, there is a risk that receipts are not deposited and that disbursements are not for proper Town purposes.

What Do We Recommend?

The Supervisor should:

1. Provide adequate oversight of the bookkeeper and contracted Budget Officer by ensuring an independent party periodically reviews:
 - a. Bank reconciliations and canceled check images to verify that only Board-approved disbursements are made.
 - b. Third party documents to verify amounts collected were recorded and deposited.
 - c. Water and sewer billing adjustments for appropriateness.

The Board should:

2. Perform, or cause to be performed, the required annual audit of the Supervisor's records.

Appendix A: Response From Town Officials

TOWN OF KIRKWOOD

Town Board

Gordon E. Kniffen, Supervisor
William J. Diffendorf, Councilman
Lewis C. Grubham, Councilman
Robert F. Weingartner, Councilman
Linda J. Yonchuk, Councilwoman

Joseph A. Griffin Town Hall

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July 3, 2018

[REDACTED]
Office of the New York State Comptroller
Binghamton Regional Office
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear [REDACTED]:

We received the 2017 Report of Examination for the Town of Kirkwood on June 4, 2018 for review. Our records show the initial interview with the State auditors was back on December 14, 2017 followed by risk assessment procedures and tests of financial transactions that included our estimate of approximately three months of field work as part of the process.

We are pleased there were no significant problems involving financial transactions revealed as disclosed in the report and appreciate the extensive efforts made by the audit team in reviewing documents and interviewing our staff as part of the protocol.

We acknowledge the eight adjustments pointed out in the report involving the water and sewer (W & S) bills, and the inclusion in the narrative that the \$686 was internally reviewed for propriety for an incorrect invoice by the W & S department guiding the bookkeeper to delete that particular billing. The remaining seven adjustments for a net \$48 in our opinion are distinguished from that situation as being discretionary decisions based on customer circumstances considered at the time.

We expect to review our internal criteria over such matters in the future for consideration by one or more Board members before adjustments are made including potential dollar thresholds per instance. We would like to point out there have been other occasions outside of the scope of this examination in which larger invoices for W & S services where customers have requested adjustments due to unusual flow whether due to unknown leaks or special circumstances, and these have been deliberated formally by the Town Board for disposition.

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Complaints of discrimination may be filed with:
USDA, Director, Office of Civil Rights, Washington, D.C. 20250-9410

We have noted the recommendations summarized on page 5 of the report for more oversight by independent individual(s) outside of the Finance Department under the circumstances. Our records show there were 1,944 vouchers utilized in 2017 subject to Board review and approval prior to expenditure, along with recurring payroll issuance review for the 26 pay cycles involved. Nevertheless, there are additional documents as cited that could and should be periodically reviewed so our corrective action plan will address these findings.

We have welcomed this audit process and sincerely appreciate the feedback provided so we can endeavor to continue to serve the residents of the Town of Kirkwood with their confidence.

Sincerely,

GORDON E. KNIFFEN
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 supporting documentation to obtain an understanding of the Town's financial operations.
- We reconciled accounting records to bank statements to determine whether all bank activity was recorded.
- We compared recorded disbursements to supporting documentation of Board approval to determine whether all disbursements were approved by the Board.
- We verified major sources of receipts were recorded and deposited.
- We reviewed adjustments to water and sewer bills and discussed reasons for those adjustments with Town officials.

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

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 Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

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/localgov/index.htm

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

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