

Town of Thompson

Board Oversight

JULY 2018



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

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Report Highlights

Town of Thompson

Audit Objective

Determine if the Board ensured financial transactions were accounted for timely and accurately and leave accrual balances were accurate.

Key Findings

- The Board did not provide adequate oversight of the Comptroller's duties to ensure that they were completed timely and accurately, which ultimately cost the Town \$7,955 in late fees and uncollected amounts.
- The Board did not adequately segregate the Comptroller's duties and ensure that proper controls were in place over cash receipts and disbursements.
- The Comptroller did not properly account for Town operations timely or accurately.

Key Recommendations

- Provide sufficient oversight of the Comptroller by requesting financial reports to verify the adequacy of the work performed and to adequately monitor financial operations and financial condition.
- Establish proper controls over the Comptroller's duties, including properly segregating duties.

Town officials generally agreed with our recommendations and indicated they are in the process of implementing corrective action.

Background

The Town of Thompson (Town) is located in Sullivan County.

The Town is governed by an elected Town Board (Board) composed of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the Town's overall management and oversight of financial operations.

The Board appoints a Town Comptroller (Comptroller), who is responsible for preparing financial reports and collecting, recording and disbursing money.

The Supervisor appoints a Confidential Secretary, who assists the Comptroller with payroll and cash disbursements.

Quick Facts

Population	15,300
2017 Budgeted Appropriations for all funds	\$17.8 million
2017 Real Property Tax Levy	\$8.8 million

Audit Period

January 1, 2016 – July 24, 2017

Board Oversight

How Should the Board Provide Oversight of Town Operations?

The board is responsible for providing oversight of town operations and establishing policies and procedures to provide reasonable assurance that town resources are adequately safeguarded and accounted for and that financial transactions are properly authorized. These policies and procedures form the internal controls over town operations, and the board should ensure that appointed officials abide by these controls.

Sufficiently segregating duties is a key element of internal controls. When it is not feasible to segregate duties, additional oversight is necessary as a mitigating control. Oversight activities can include reviewing budget-to-actual and other financial reports, bank reconciliations, bank statements and canceled check images and reviewing and approving disbursements prior to payment.

New York State (NYS) Town Law¹ requires the deposit of town money within 10 days of receipt. However, the statutory deadline is the latest point in time at which a deposit should be made. Cash receipts should be deposited as soon as possible because the longer money remains undeposited, the greater the risk that loss or theft can occur or the paying account has insufficient funds. When town officials deposit checks with insufficient funds, they should charge the payer the board-approved fee and pursue uncollected payments due.

Town officials also should ensure that personnel properly calculate and deduct leave time used from employee leave accrual balances and that employees accrue leave in accordance with town policies and board resolutions.

The Board Did Not Provide Sufficient Oversight of the Comptroller's Duties

The Board did not ensure that the Comptroller completed his duties in an effective manner. The Board did not receive or review budget-to-actual reports, balance sheets or any other financial reports, including the annual financial report,² to monitor the Town's financial condition. Moreover, the 2016 AUD was filed 157 days late. We also found multiple accounting errors and routine tasks that were not completed timely or accurately, which ultimately cost the Town \$7,955. Specifically, we found the Comptroller:

- Filed six NYS tax payments late resulting in penalties totaling \$3,100.

1 New York State Town Law Section 29[2]

2 The annual financial report (AUD) is required to be submitted to the Office of the State Comptroller.

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- Deposited 11 checks totaling \$3,800 which were returned by the bank due to insufficient funds in the paying account. The Comptroller did not charge the payers of the 11 checks the return check fees totaling \$255 and did not pursue outstanding payments due totaling \$2,100.
 - Issued 119 checks from bank accounts that had insufficient balances to cover them, for which the Town was charged \$2,500 by the bank for insufficient fund fees.

In addition, although the Board reviewed monthly abstracts,³ the Comptroller did not ensure that the abstracts contained all disbursements made during the month. For example, we found 94 checks issued during our audit period totaling \$1.3 million that were not reviewed or approved by the Board. From those checks, we reviewed the supporting documentation for a judgmentally selected sample of 18 totaling \$760,000 and determined they were for proper Town purposes.

The Board also did not ensure that the Comptroller accurately accounted for the leave accruals and leave usages for himself and the Confidential Secretary. No one reviews either of their timecards to ensure leave accruals and usages are accounted for properly. Instead, the Comptroller and the Confidential Secretary tracked their own leave accruals and usages. As a result, they inappropriately carried over a combined 183 hours of leave time they were not entitled to accrue because, according to Town Code, vacation time and personal time is forfeited on the employee's employment anniversary date. For example, the Comptroller carried over 63 vacation hours on his employment anniversary date in June 2016 that should have been forfeited and not carried over. The Comptroller and Confidential Secretary are eligible for payouts for unused leave when they separate employment with the Town. The 183 hours inappropriately accrued equates to \$4,321, based on their respective hourly rates.

The Board Did Not Adequately Segregate the Comptroller's Duties

The Comptroller performed most aspects of the cash receipts process including making deposits, recording receipts and preparing bank reconciliations without sufficient oversight. Although all the receipts that we reviewed were accounted for, we found the following:

- Two unsupported adjusting entries totaling \$76,500 were made to write-off stale checks and move cash balances from the town-outside-village highway fund to the town-wide highway fund. Without proper support, we could not determine if the adjusting entries were authorized. Moreover, transfers between funds of differing tax bases creates taxpayer inequity.

³ An abstract is a list of claims to be paid.

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- Two entries were posted to incorrect accounts. The Comptroller wrote-off insufficient fund checks and insufficient fund fees totaling \$1,070 to State aid revenues even though these should have been charged to an expenditure account. This error also concealed these uncollected funds and fees.
 - One incorrectly posted entry overstated a deposit by \$18,600. This recording error created discrepancies when reconciling bank statements to accounting records (see below) and also resulted in inaccurate accounting reports which the Board relies on to make financial decisions. Our review of the supporting documentation for this deposit did not indicate any misappropriations.

Although the Supervisor reviewed journal entries, he did not identify these errors and they remained uncorrected. Moreover, out of 65 deposits totaling \$23.7 million reviewed, 18 totaling \$261,200 were not deposited timely, ranging from 12 to 92 days from their receipt date.

In addition, the Comptroller performed most aspects of the payroll process, including preparing, recording and issuing payroll disbursements. He also had the ability to enter pay rates without any oversight or payroll certification. The Comptroller overpaid salaries to four Board members in 2016 by \$525 each, totaling \$2,100 in overpayments, when compared to Board-approved amounts in the minutes. Board members repaid these amounts when we informed them of the error. Additionally, we found 120 instances of employee payroll withholdings totaling \$9,060 that were not remitted to the appropriate vendors (e.g., New York State and Local Retirement System (NYSLRS) contributions and loans, medical insurance and life insurance) nor returned to the employees. This money remains in the Town's bank account. As a result, employees' NYSLRS accounts have less money than they should, NYSLRS loan amounts were not paid, medical and life insurance coverage could be in question and employees had too much money withheld. For example, the Comptroller continued to withhold \$3 per paycheck for a total of \$390 from an employee for a medical administrative fee that was discontinued in 2012 and the money remains in the Town's account.

The Comptroller Did Not Properly Reconcile the Accounting Record Amounts with the Bank Statement Balances

The Comptroller did not prepare bank reconciliations accurately or timely. The Town has 19 bank accounts that should be reconciled to the accounting records each month. More than half of the completed 2016 bank reconciliations (122 of 228) were not completed timely,⁴ and none of the 2017 bank reconciliations (114)

⁴ We determined that bank reconciliations completed within 30 days of the bank statement ending date were completed timely.

were completed. In fact, none of the 2017 bank statements were opened as of July 24, 2017. Of the bank reconciliations that were completed, there were unreconciled variances that Town officials did not resolve. For 2016, unreconciled variances ranged from a negative amount of \$63,300 to a positive amount of \$5,150.

Without properly reconciling bank balances to accounting record balances and without reviewing budget-to-actual or other financial reports, officials cannot know the Town's true financial condition. Due to these deficiencies, the risk of errors, irregularities and cash flow issues greatly increases. In addition, the Comptroller told us that he had not received training on many of the topics discussed in this report. However, the Supervisor told us he offered and encouraged the Comptroller to attend as much training as necessary. Although the Board has retained the services of a certified public accountant firm to perform an annual audit of the 2016 records, no audit report has been issued as of the end of our fieldwork due to the poor condition of the Town's records.

What Do We Recommend?

The Board and Town officials should:

1. Ensure that they receive adequate financial reports including, but not limited to, bank statements, bank reconciliations, budget-to-actual reports and balance sheets to monitor the Town's financial condition.
2. Ensure return check fees are charged as applicable.
3. Pursue the collection of outstanding payments owed to the Town.
4. Segregate duties over the cash receipts and payroll processes or establish adequate mitigating controls.
5. Ensure that salaries are paid at Board-approved rates and leave accruals and usages are accounted for properly.
6. Investigate the employee payroll withholdings identified in this report and ensure they are remitted to the proper vendor or returned to the employees, if applicable.
7. Ensure that the necessary corrections are made so that the accounting records accurately reflect financial transactions.

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8. Ensure the AUD is filed timely.

The Comptroller should:

9. File required NYS tax payments timely and ensure sufficient funds are available to cover disbursements to avoid penalties and insufficient fund fees.
10. Ensure all claims are included on the abstracts presented to the Board for approval.
11. Ensure that all transactions are properly recorded, deposited, accounted for and disbursed in a timely and accurate manner.
12. Attend training to develop introductory skills for accounting and recordkeeping.
13. Correct the errors in the accounting records in order to have the financials properly audited.

Appendix A: Response From Town Officials



William J. Rieber, Jr.
Supervisor

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June 29, 2018

H. Todd Eames, Chief Examiner
Office of the New York State Comptroller
Division of Local Government & School Accountability
44 Hawley Street, Suite 1702
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Dear Mr. Eames:

On behalf of the Board of the Town of Thompson, we would like to take this opportunity to respond to the Report of Examination for Town of Thompson Board Oversight. Initially, I would like to say that we are grateful for the expert work performed by the representatives from the New York State Comptroller's Office in determining their final results.

The findings and recommendations in the draft report will help guide the Town to more effectively manage day-to-day operations. The Town Board takes all of the findings and recommendations seriously and will continue to work towards our goal of getting all Town procedures in "best practice" form.

Please note that in order to get a fresh look at our operations from a different perspective the Town Board had engaged a new auditing firm *prior* to the commencement of the NYS State audit. Their findings have, in large part mirrored those of your auditors. Your auditing team has kept us abreast of many of their concerns during the audit period which has been very helpful. We have replaced the prior Comptroller and we are moving forward expeditiously to address the issues found.

We understand that the primary objective of the Board Oversight Audit was to determine if the Board ensured financial transactions were accounted for timely and accurately and if leave accrual balances were accurate for the time period of January 1, 2016 - July 24, 2017.

The preliminary audit results have been reviewed and discussed with the Board, our employees, and accounting/financial consultants. We concur with the audit recommendations and will be developing a detailed Corrective Action Plan ("CAP") to be submitted within 90 days of the release of the final audit report.

In review of the findings and recommendations, the Town has the following responses:

Finding 1: How should the Board provide oversight of Town operations.

Response:

1. Cash receipts are now reviewed and deposited expeditiously and well before the statutory deadline.
2. Monitoring of personnel leave accruals has been changed and will be reviewed on each payroll and signed off by department heads.
3. We are also outsourcing payroll to [REDACTED] and incorporating their controls and recordkeeping systems to accurately track leave and other payroll items.
4. The Comptroller will provide Budget to Actual reports to the Board members on a monthly basis. This will engage the board in more oversight and present a “real time” picture of the Town finances.

Finding 2: Board did not provide sufficient oversight of the Comptroller duties.

Response:

1. While inexcusable, the Town was charged for overdraft fees due to the lack of timely transfer of funds to cover checks issued. It should be noted that in almost all instances, the transfers were within the same bank. Furthermore a substantial portion of the fees were credited back to the accounts by the bank.
2. The Board agrees that oversight of the Comptroller’s duties was lacking. Late file, overdraft notices and returned checks all would have resulted in written notices mailed to the Town. All of this correspondence was opened and retained by the then Comptroller. Payments of penalties for late payroll filings were paid electronically from the Trust and Agency (payroll) account without presentation of a warrant to the Town Board; overdraft penalties were, in at least one instance, were improperly charged off to an income account. This effectively concealed these issues from the Supervisor and the Town Board. Going forward, mail relating to banking and tax departments such as the IRS and NYS Taxation Department will be delivered to the Supervisor first, prior to being delivered to the Comptroller.
3. The Town Board has changed the sorting method of running abstracts to eliminate a recurrence of this issue.
4. Leave accruals for the Comptroller and Confidential Secretary are now being reviewed by the Supervisor at each payroll. The supervisor notes that carry over of vacation was authorized verbally in the past. Future requests to carry over vacation will be in writing and signed off by the Supervisor.

Finding 3: The Board did not adequately segregate the Comptroller duties.

Response:

1. Historically the Town relied on the Comptroller’s office for all financial controls and functions. Since it is a one person office there was a deficiency in checks and balances. The Supervisor’s Confidential Secretary will assume more responsibility and work with

the new Comptroller so that bookkeeping functions are separated and reviewed by each other.

2. As to the issue with Supervisor's review of journal entries, this Supervisor did review and sign off on journal entries. The Supervisor relied, for the most part, on a verbal explanation of the nature of the journal entries provided by the Comptroller. Though there routinely was discussion between the Comptroller and the Supervisor about the journal entries and the Comptroller's reasoning for same, the answers provided to the Supervisor were deemed reasonable and accordingly were signed off. Moving forward the Supervisor will require documentation to review prior to authorizing journal entries that are out of the norm.

Finding 4: The Comptroller did not properly reconcile the accounting record amounts with the bank statement balances.

Response:

- The Town will review banking practices and is considering reducing the number of bank accounts to reduce complexities and the sheer volume of reconciliations required.
- Previously the then Comptroller reconciled accounts to a "variance" without explanation or determining the reason for the variance. We are presently in the process of reviewing reconciliations.

Recommendation 1: Ensure that the Town officials receive adequate financial reports including, but not limited to bank statements, bank reconciliations, budget-to-actual reports and balance sheets to monitor the Town's financial condition.

Response:

The Board concurs with the findings and recommendations for improvements and oversight to ensure that accounting records are accurate, complete and timely. The new Town Comptroller will ensure that all proper financial reports and statements be made available to Town officials on a regular basis. Budget to actual reports will be distributed monthly to Board members.

Recommendation 2: Ensure return check fees are charged as applicable.

Response:

Without exception, we now require all return checks be charged the proper fees pursuant to Town Board resolution.

Recommendation 3: Pursue the collection of outstanding payments owed to the Town.

Response:

Any and all outstanding debts to the Town will be pursued for collection to the extent where

practical and where there is a reasonable possibility of collection.

Recommendation 4: Segregate duties over the cash receipts and payroll processes or establish adequate mitigating controls.

Response:

As previously stated, the Supervisor's Confidential Secretary will assume more responsibility for bookkeeping duties and work directly with the Comptroller to assure segregation of duties.

Recommendation 5: Ensure that salaries are paid at Board-approved rates.

Response:

All salaries paid will be entered by either the Confidential Secretary or the Comptroller and then cross checked by the other to ensure that salaries are paid at board approved rates, expanding on number 4 above.

Recommendation 6: Investigate the employee payroll withholdings identified in this report and ensure they are remitted to the proper vendor or returned to the employees, if applicable.

Response:

We will reconcile the Trust and Agency account to ensure that all vendors have been paid and that any funds due employees have been remitted.

Recommendation 7: Ensure that the necessary conditions are made so that the accounting records accurately reflect financial transaction.

Response:

We have retained the services of our CPA and are enlisting their expertise to correct errors in our accounting records so that we can prepare auditable financial statements for the past year and going forward.

Recommendation 8: Ensure the AUD is filed timely.

Response:

1. We have retained the services of our CPA and are enlisting their expertise to correct errors in our accounting records so that we can prepare the AUD for 2017.
2. Future AUD's will be filed timely.

The Comptroller should:

Recommendation 9: File required NYS tax payments timely and ensure sufficient funds are available to cover disbursements to avoid penalties and insufficient fund fees.

Response:

1. We agree 100% and will do so.
2. We have contacted the NYS Tax Department to request forbearance for assessed penalties in light of the fact that said penalties were completely concealed from the Town Board.

Recommendation 10: Ensure all claims are included on the abstracts presented to the Board for approval.

Response:

1. We have already done so and will continue.
2. We have changed the method of sorting the abstracts so that they are ordered by voucher number. In that way, the board can easily recognize whether all claims have been reviewed because the next abstract must begin with the “next” voucher number. Previous abstracts were sorted by vendor making verification nearly impossible.

Recommendation 11: Ensure that all transactions are properly recorded, deposited, accounted for and disbursed in a timely and accurate manner.

Response:

We agree and will comply.

Recommendation 12: Attend training to develop introductory skills for accounting and record keeping.

Response:

1. The Town of Thompson makes training available to all employees as relates to their job functions as a matter of policy.
2. The Comptroller’s office in particular has numerous training opportunities available through the NYS Comptroller’s office and various accounting venues. We have *always* encouraged and paid for training as needed. We will continue to do so.

Recommendation 13: Correct the errors in the accounting records in order to have the financials properly audited.

Response:

Agreed, and we are in the process of doing so.

Very truly yours,

William J. Rieber, Jr.
Supervisor

WJR:ck

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 Board members, Town officials and Town employees; reviewed Town records and reports; and observed operations to gain an understanding of the policies and procedures related to Town operations.
- We selected all vouchers that did not appear on a Board-approved abstract during our audit period to determine whether they were for proper Town purposes.
- We selected all insufficient fund checks returned by the bank during our audit period and determined whether they were properly pursued.
- We selected all Town-issued checks paid with insufficient funds during our audit period to calculate the total bank charges paid.
- We reviewed all electronic fund transfers to NYS for taxes withheld from employees during our audit period to determine whether they were paid timely and documented the total late fees paid.
- We reviewed the Comptroller's and Confidential Secretary's leave accruals and usages during our audit period to determine whether they had sufficient balances available for leave taken and to determine whether they were recorded accurately.
- We randomly selected a sample of four months of cash receipts from the Town Justice, Town Clerk and Building Department, and tested 100 percent of those receipts, to determine whether the Comptroller deposited them timely.
- We judgmentally selected all 287 salary payments totaling \$430,700 paid to Board members, the Supervisor, the Comptroller and the Confidential Secretary to determine whether they were paid at Board-approved rates.
- We judgmentally selected June 2016 and June 2017 payroll withholdings, with no expectation we would find more or fewer errors, to determine whether they were accurately remitted to the appropriate payees.
- We reviewed all reports submitted to the NYSLRS from January 2016 through June 2017 to determine whether all contributions were accurately reported and remitted.
- We judgmentally selected a sample of 10 journal entries, with no expectation we would find more or fewer errors, to determine whether they were recorded accurately and properly supported.

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- We judgmentally selected December 2016 bank reconciliations, with no expectation we would find more or fewer errors, and reviewed all bank statements to determine whether the bank reconciliations were performed timely and accurately.

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 Town 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

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