

# Town of Freetown

## Records and Reports

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

# Contents

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- Report Highlights . . . . . 1**
  
- Records and Reports . . . . . 2**
  - What Does Adequate Financial Recording and Reporting Entail? . . . 2
  - Records and Reports Were Inadequate . . . . . 2
  - What Do We Recommend? . . . . . 4
  
- Appendix A – Response From Town Officials . . . . . 5**
  
- Appendix B – Audit Methodology and Standards . . . . . 6**
  
- Appendix C – Resources and Services . . . . . 8**

# Report Highlights

## Town of Freetown

### Audit Objective

Determine whether the Supervisors maintained complete, accurate and up-to-date accounting records and reports to allow the Board to properly manage the Town's finances.

### Key Findings

- The Supervisors did not maintain, nor require their bookkeeper to maintain complete, accurate and up-to-date accounting records and reports.
- The bookkeeper did not record all expenditures in the general and highway funds in a timely manner.
- The annual update document (AUD) was not filed in a timely manner for the 2017 fiscal year.

### Key Recommendations

The Supervisor should:

- Periodically review the bookkeeper's work to ensure that all financial activity is accurately and completely accounted for.
- Develop a plan for updating and maintaining the accounting records and filing the AUD in a timely manner.

Town officials did not provide a written response for this report.

### Background

The Town of Freetown (Town) is located in Cortland County.

The Town is governed by an elected five-member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor is the chief executive and chief financial officer. The bookkeeper maintains all accounting records, generates internal and external financial reports and prints checks.

During our scope period, there were three different Town Supervisors: the former (January 2016 – September 2017), interim (September 2017 – November 2017) and current (November 2017 – April 2018). All three Supervisors used the same bookkeeping service (bookkeeper).

#### Quick Facts

Population	763
2018 General Fund Appropriations	\$209,346
2018 Highway Fund Appropriations	\$357,899

### Audit Period

January 1, 2017 – April 23, 2018

We extended our scope back to 2015 to analyze financial trends.

# Records and Reports

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## What Does Adequate Financial Recording and Reporting Entail?

The supervisor is responsible for maintaining accurate financial records and providing monthly reports to the board that summarize financial activities. The accounting records should document the assets, liabilities, fund equity and results of operations (revenues and expenditures) for each town fund. The monthly reports to the board should include a detailed accounting of all money received and disbursed. Good business practices dictate that these reports also contain detailed year-to-date, budget-to-actual comparisons of revenues and expenditures for each fund. Furthermore, the supervisor is required to file an annual financial report (AUD) with the New York State Office of the State Comptroller (OSC) timely and accurately.

If the supervisor assigns the recording and reporting duties to a bookkeeper, the supervisor should provide sufficient oversight to ensure the bookkeeper maintains suitable records, documents financial information accurately and timely, and provides useful reports to the board. Complete and accurate records and reports allow the board to make timely and prudent financial decisions.

## Records and Reports Were Inadequate

The three Supervisors from 2016 through audit fieldwork in 2018 neither maintained nor required the bookkeeper to maintain complete, accurate and up-to-date accounting records and reports. They also did not adequately oversee the bookkeeper's work during their tenure by verifying that all transactions were properly recorded.

The bookkeeper provides the Board two types of reports each month: one that summarizes revenue and disbursement activity by month (monthly summary) and one that compares overall year-to-date revenue and disbursement activity to the budget (budget-to-actual). However, the bookkeeper does not generate the reports to the Board using the same software as used for the accounting records. Instead, the bookkeeper generates reports by manually inputting selected information into a different software resulting in typographical and mathematical errors.

We found the reports did not include all line items or had incorrect sum totals in four of the five months we reviewed. These five months spanned the tenures of the former, interim and current Supervisors. We also found inconsistencies between the two reports presented each month, leaving the Board unsure of which report was correct, or if either was correct. For example, the total sum of highway revenues on the monthly summary was not carried over to the budget-to-actual in one month (over \$221,000) and the bond principal and interest payments were not included in the total on the monthly summary for three months (\$10,900), contributing to over \$347,000 in total inconsistencies.

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Additionally, the amounts in the reports differed from the accounting records. We found 18 instances in the general fund totaling over \$29,700 and 14 instances in the highway fund totaling approximately \$45,800 where line item expenditures reported to the Board differed from the accounting records. A majority of these were caused by the bookkeeper recording and reporting the expenditures in different months than they were vouchered and paid. We also found two disbursements for appraisal and attorney services totaling \$7,239 that were coded incorrectly to a “catch-all” account code.

General fund real property taxes were overstated in the general fund accounting records, by almost \$42,000 in 2016 and by approximately \$4,250 in 2017. This was a result of double counting almost \$38,000 of fire district taxes in the general fund in 2016, and not reporting interest and penalties separately in either year. These errors led to misreported real property taxes on the 2016 and 2017 AUDs. Additionally, in six instances revenues were coded incorrectly in the accounting records, five of which were fines and forfeited bail totaling \$1,941, and one \$100 refund that was coded as revenues from licenses.

Furthermore, the Town had a negative accounts payable balance of \$38,550 in the accounting records, arising from entries which were made prior to the bookkeeper’s tenure. These accounts payable entries were attempts to fix errors in the accounting records. The bookkeeper has started to correct this balance. However, as of fiscal year-end 2017, the AUD included over \$8,400 in negative accounts payable, indicating continued recordkeeping issues.

Although the bookkeeper reported the reconciled bank balances to the Board, the bank reconciliations were created using inaccurate accounting records. She also changed her reports to the Board retroactively to fix errors as she found them, but this was unclear to the Board and resulted in inconsistencies in year-to-date figures over time. The bookkeeper stated that she does not always receive financial information from the Supervisor on a timely basis and has to rely on bank statements to discover revenues not reported directly to her. Lastly, the high turnover in Supervisors during our scope period led to disruptions in recordkeeping and made it difficult for the bookkeeper to create the 2017 AUD, which was filed with OSC 122 days late.

Town officials did not have complete, accurate and timely financial information. As a result, the Board’s ability to monitor the Town’s financial affairs, accurately assess the Town’s financial condition and make sound financial decisions may be compromised.

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## What Do We Recommend?

The Supervisor should:

1. Periodically review the bookkeeper's work to ensure that all financial activity is accurately and completely accounted for.
2. Ensure that all reports to the Board and OSC are complete, accurate and timely filed.
3. Consider OSC training and contact OSC for technical assistance.

The bookkeeper should:

4. Maintain complete and accurate accounting records.
5. Ensure that reports to the Board accurately reflect accounting records.
6. Fix accounts payable entries to correct negative balances.
7. Consider OSC training and contact OSC for technical assistance.

The Board should:

8. Ensure it receives complete, accurate and timely financial reports.

## Appendix A: Response From Town Officials

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Town officials did not provide a written response for this report.

## Appendix B: Audit Methodology and Standards

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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 Board meeting minutes to gain an understanding of the Town's recording and reporting processes and the nature of any errors we identified during audit testing.
- We identified unusual trends or balances in assets, liabilities, fund balances, revenues and expenditures on 2015, 2016 and 2017 AUDs and interviewed Town officials to determine the causes.
- We traced revenues from third-party sources (tax warrants and sales and mortgage taxes distributed from Cortland County and Clerk and Code Enforcement Officer receipts) from our scope period to the bank to verify that the money was deposited into Town accounts.
- For five judgmentally selected months (January 2017, June 2017, September 2017, November 2017 and March 2018) from the three different Supervisors' terms with no expectation that more or fewer errors would occur during the selected month than any other month of our audit period:
  - We traced all deposits in bank statements to other Town accounts or to accounting records. We assessed whether these revenues were recorded in the correct line item.
  - We calculated all differences between all revenues in accounting records and all revenues reported to the Board in the monthly summary. We assessed the cause of all differences.
- For five other judgmentally selected months (March 2017, May 2017, October 2017, December 2017, and February 2018) from the three different Supervisors' terms with no expectation that more or fewer errors would occur during the selected month than any other month of our audit period:
  - We reviewed check images and electronic fund transfers from all Town bank accounts to determine whether they were for appropriate Town purposes and properly approved by the Board. We traced these disbursements to vouchers and invoices, employee pay stubs, contracts with the bookkeeper and dog control service provider, and correspondence with OSC and the Internal Revenue Service.
  - We traced all expenditures for vouchers approved to warrants prepared by the Town Clerk and then to accounting records. We assessed whether proper account codes were used on vouchers, on warrants and in accounting records and whether vouchers had appropriate supporting documentation, i.e., an attached invoice or receipt.



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- We calculated all differences between all expenditures in the accounting records and all expenditures reported to the Board in the monthly summary. We assessed the cause of all differences.
  - For five other judgmentally selected months (April 2017, July 2017, October 2017, January 2018, and April 2018) from the three different Supervisors' terms with no expectation that more or fewer errors would occur during the selected month than any other month of our audit period:
    - We compared all revenues and expenditures in the monthly summaries presented to the Board with the budget-to-actual reports also presented.
    - We calculated all differences between all bank balances on reports to the Board and reconciled bank balances.
    - We calculated the extent to which revenues and expenditures were changed by the December 2017 or July 2018 monthly summary report, noting each line item and the extent of change before tabulating the total net change per report to measure the error correction.

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

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

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