

Town of Westford

Financial Operations Oversight

JANUARY 2019



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

Contents

- Report Highlights 1**

- Financial Operations. 2**
 - How Should the Supervisor and Board Properly Oversee
Financial Operations? 2
 - Controls Over Financial Operations Were Inadequate 2
 - The Board’s Monitoring of the Town’s Financial Position Is Inadequate 5
 - What Do We Recommend? 6

- Appendix A – Response From Town Officials 7**

- Appendix B – Audit Methodology and Standards 8**

- Appendix C – Resources and Services. 9**

Report Highlights

Town of Westford

Audit Objective

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

Key Findings

- The Supervisor and Board did not properly oversee the processing of the Town's financial transactions. As a result, the Town incurred \$14,541 in excess costs.
- The Board has not performed an annual audit of the Supervisor's records.
- The Supervisor did not maintain accurate financial records and as a result, did not provide the Board with the necessary information to assess the Town's financial position.

Key Recommendations

- The Board should establish proper internal controls over financial transactions and perform its required annual audit.
- The Supervisor should maintain complete and accurate records and provide financial position reports to the Board.

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

Background

The Town of Westford (Town) is located in Otsego County and governed by an elected Town Board (Board) composed of four Board members and a Supervisor. The Board is responsible for the general management and control of the Town's financial operations, including adopting the annual budget and establishing financial policies.

The Supervisor serves as the chief executive and chief fiscal officer. The Supervisor hired a bookkeeper who records and reports the Town's financial transactions.

Quick Facts

Population	868
2018 Appropriations	\$659,118
2018 Tax Levy	\$357,005

Audit Period

January 1, 2017 – May 31, 2018

Financial Operations

How Should the Supervisor and Board Properly Oversee Financial Operations?

The supervisor is responsible for collecting, receiving and maintaining custody of all money belonging to or due a town. While the supervisor can hire a bookkeeper, the supervisor is responsible for ensuring that only proper town expenditures are made, all receipts are deposited timely¹ and financial records are accurate.

The board is responsible for managing and overseeing the town's financial operations and monitoring the town's financial position. Internal controls should be in place to ensure purchases are made at the lowest prices and in compliance with requirements, disbursements are for legitimate town expenditures and properly supported by an approved abstract, payroll is processed accurately and employees are paid at the correct rates and receipts are collected and deposited in a timely manner. Further, the board is responsible for auditing and approving all claims for payment, periodically reviewing reports of the town's financial condition and providing for an annual audit of the supervisor's records. The annual audit helps ensure the supervisor is maintaining accurate and complete financial records.

Additionally, New York State General Municipal Law² generally requires the board to advertise for bids on purchase contracts of more than \$20,000 and public works contracts of more than \$35,000. Purchases should be made from the lowest responsible bidders or legal alternatives such as purchasing through New York State Office of General Services (State) or county contracts.

Controls Over Financial Operations Were Inadequate

The Board did not ensure controls over financial processes were adequate and did not provide sufficient oversight of financial operations. As a result, the Town incurred \$14,541 of excess costs because overpayments and unnecessary fees and taxes were incurred, and discounts could not be realized, as indicated in Figure 1:

Figure 1: Excess Costs to the Town

Description	Amount
Fuel Taxes	\$11,320
Overpayment to an Employee	\$1,296
Duplicate Invoice Payment	\$1,222
Retirement Discount Not Realized and Late Fees Paid	\$528
Overdraft Fees Paid	\$175
Total Excess Costs	\$14,541

¹ New York State Town Law Article 3 Section 29 requires deposits be made within 10 days of the receipt of funds.

² New York State General Municipal Law (GML) Section 103

Bidding – Department heads initiate and approve purchases and verify the receipt of items. The Board then approves the claims for payment. The procurement policy does not specifically address bidding, other than to direct employees to comply with the law. However, the Board does not always ensure that the bidding requirements are being followed.

We scanned and grouped canceled check images for 2017 totaling \$406,700 to determine the items that needed to be bid. The Highway Superintendent followed competitive bidding requirements for a loader totaling \$158,800 and road sand totaling \$22,000. He also used the State contract for paving totaling \$130,000 and the County contract for stone totaling \$51,000.

However, Town officials chose to use the same local vendor for diesel fuel purchases for over 20 years instead of competitively bidding or using other established government contracts, partly because the vendor provided free service on the Town's furnaces. We found that the Town could have paid \$933 less in 2017 for \$23,106 of diesel fuel if officials had purchased the fuel from a State contract vendor. Although fuel oil and gasoline purchases totaling \$13,155 were below the bidding threshold, officials could have saved \$1,020³ purchasing these types of fuel from the State contract vendor.

Cash Disbursements – The Board approves disbursements through its monthly claims audit process by having each Board member approve the individual vouchers and then sign off on the abstract. The Supervisor then manually writes and signs checks. However, the Board did not always carefully review the claims or require that adequate support be submitted before approving claims for payment and no one ensured all disbursements were approved.

We scanned the bank statements for the audit period and selected a judgmental sample of canceled checks⁴ (42 totaling \$173,500) and all canceled checks (48 totaling \$181,950) that cleared the bank in August 2017 and February 2018 to determine whether these disbursements were properly supported and approved by the Board for payment. For the 90 disbursements tested, we found:

- Five disbursements were not approved, including \$175 for overdraft fees, \$3,075 for health insurance, \$1,736 for two electric bills and \$1,349 for heating oil.
- Four disbursements were not properly supported, including three to Town officials for supplies for \$1,187 and one for \$250 for dog control services.

³ Because of the vendor's service work on the furnaces, we did not add the potential savings available from using the State fuel contracts to the table of excess costs above.

⁴ We selected vendors that could be for personal use or were known associates of Town officials and reimbursement checks to employees. We also selected all checks over \$9,000, which were not transfers, to ensure that larger dollar amounts were tested.

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- One disbursement for a computer totaling \$825 that was not approved or supported.

We located the computer at the highway barn, interviewed officials and reviewed the Board minutes to determine that these 10 disbursements were legitimate Town expenditures. We also found that the Supervisor paid the same invoice twice for garbage disposal fees totaling \$1,200. Furthermore, we noted that the Town was inappropriately paying taxes on the fuel invoices selected. We then accumulated fuel invoices for our scope period and determined that the Board inappropriately approved the payment of \$11,320 in fuel taxes.

The Board meeting minutes indicated officials knew they were paying the fuel taxes for at least two years. It was not until June 2018 that the local vendor stopped charging the Town the fuel taxes.

Payroll – The Supervisor receives the timecards and gives this information to the bookkeeper who processes the payroll in the accounting system. Then, the bookkeeper gives the Supervisor the payroll summary from the accounting system and the Supervisor manually writes and signs checks. However, no one ensures payroll is processed accurately.

We tested all 12 salaried employees paid a total of \$70,950 in 2017 and found, except for minor discrepancies, 11 employees received the correct annual salaries according to the approved budgets. However, we found the former Highway Superintendent was overpaid \$1,269 because an extra check was issued upon his retirement.

We also tested two pay periods for all four hourly employees totaling \$10,579 and found three employees were paid the correct hours at the correct rates. However, one employee was underpaid \$111 for 4.5 hours of overtime. We also tested the annual vacation and health insurance buyouts for eligible employees totaling \$1,494. Although the two health insurance buyouts were paid correctly, we found the three employees who received annual vacation buyouts were underpaid a total of \$114 because no one verified the buy-out amounts paid were accurate.

Cash Receipts – The Supervisor collects and deposits money owed to the Town. However, no one ensures that the Supervisor deposits all collections. Furthermore, the Supervisor does not deposit receipts timely.

We traced real property taxes, State and county payments, justice and clerk fees and other miscellaneous revenues totaling \$1.26 million for our scope period and found that, except for one State check noted below, receipts were deposited. However, we noted one deposit totaling \$23,200 made in October 2017 included sales tax distributions for three months, clerk's fees for two months and justice's fees for two months. The Supervisor told us he keeps the checks at his house until he has time to deposit them. In addition, we found a \$90 check issued by the

State in January of 2018 was not deposited. The Supervisor told us he had not seen the check and would contact the State to obtain a duplicate. We also found a check from the Justice for April 2017 was lost and not discovered and replaced until June 2018.

These issues occurred because the Supervisor did not deposit receipts in accordance with statute. In addition, the Board did not provide necessary oversight or mitigating controls to detect the problems timely. Furthermore, the Board is not performing its required annual audit of the Supervisor's records, which could have detected these deficiencies. The lack of Board oversight can put the Town at risk for additional errors and irregularities to continue to go undetected and uncorrected.

The Board's Monitoring of the Town's Financial Position Is Inadequate

Although the Supervisor provides the Board with monthly budget-to-actual reports, they are not accurate and do not include information regarding the Town's financial position, such as bank account balances. In addition, the Town's annual reporting of fund balance totals is not accurate and there are no projections of fund balance being made during the budget process. Therefore, no one including the Supervisor, Board and taxpayers know the Town's actual financial position. This is especially concerning because our analysis indicates some cash flow issues.

The Supervisor delegates the responsibility of keeping a general ledger to an offsite bookkeeper, who uses a computerized accounting system to record transactions by account code to print budget-to-actual reports for the Board's review. She also provides the Supervisor with reports from the accounting system, such as a balance sheet, which includes the amount of fund balance. However, these reports are not submitted to the Board for its review. In addition, the Supervisor does not ensure the accounting records are reconciled to the bank statements. We found the records and reports generated from the accounting system were inaccurate and incomplete. We traced 90 disbursements and 30 deposits from the bank statements to the accounting records and found 21 disbursements and three deposits were not posted to the accounting system.

We estimated the Town's combined unassigned fund balance at December 31, 2017 was approximately \$150,000, or 23 percent, of the ensuing year's budgeted appropriations. While this may appear to be an adequate amount of fund balance, \$126,400 (84 percent) of the balance was a highway fund receivable from the New York State Consolidated Highway Improvement Program (CHIPS) which is an indication of potential cash flow problems. For example, at December 31, 2017, we estimate the highway fund adjusted cash balance in the checking account was negative \$5,200.

The Supervisor paid overdraft fees of \$175 in the highway fund and was unable to take advantage of the discounts available for both annual retirement payments

during our scope period totaling \$317. Instead, the Town incurred \$211 in late fees due to cash flow issues.

In addition, the Town plans to purchase a plow truck for approximately \$200,000. Although there is \$93,000 in an equipment reserve that can be used toward this purchase, the Board needs to have complete and accurate information regarding the Town's financial position to make informed decisions regarding funding sources for large purchases.

Without accurate and complete accounting records, the Supervisor cannot provide the Board and taxpayers with adequate financial information to assess the Town's financial condition and facilitate decision making on the Town's operations.

What Do We Recommend?

The Board should:

1. Ensure proper internal controls are in place over financial operations.
2. Ensure that purchases are made in compliance with bidding requirements.
3. Seek reimbursement for the taxes paid on fuel purchases.
4. Consult with legal counsel and take appropriate action to rectify employee payroll overpayments and underpayments, as applicable.
5. Audit the Supervisor's records and reports on an annual basis.
6. Review financial position reports periodically.

The Board and Supervisor should:

7. Review the training resources listed in Appendix C of this report and our publication *Fiscal Oversight Responsibilities of the Governing Board*, which can be accessed on our website at: www.osc.state.ny.us/localgov/pubs/lgmg/fiscal_oversight.pdf.

The Supervisor should:

8. Deposit receipts in a timely manner.
9. Maintain adequate accounting records of the Town's financial position and present reports of fund balance to the Board, at least annually.
10. Ensure the accounting records are reconciled periodically to the bank statements.

The Highway Superintendent should:

11. Comply with GML bidding requirements.

Appendix A: Response From Town Officials

Town of Westford
P.O. Box 43
Westford, NY 13488

December 31st 2018

Municipal Response to Draft Report of Audit

The Town of Westford would like to take this time to thank the Office of NYS Comptroller and its Auditors for their recent audit of financial operations oversight of the town. The Town acknowledges the value and honesty of the report.

This is the first proactive and informational action the town has participated in twenty years with the States Office. The Town looks forward to addressing the recommendations in the report through the Corrective Action Plan (CAP) process. We will work closely with your office to develop and implement solutions to your key findings and remove the careless and sloppy financial oversights.

Sincerely,

Bryan Larrabee

Town Supervisor
Town of Westford

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 officials and reviewed minutes to obtain an understanding of the Town's financial operations and the condition of the financial records.
- We calculated the book balances from the bank statements and compared them to the Supervisor's manual records and reported balances from the accounting system.
- We used our reconciled cash balances and added the highway receivable to determine the Town's 2017 fiscal year-end fund balance and calculated the fund balance as a percentage of the ensuing year's budgeted appropriations.
- We tested all purchases in 2017 subject to bidding to ensure bidding requirements were followed. If requirements were not followed, we compared prices charged to the Town to State and/or county contract prices to determine whether there were cost savings.
- We tested a sample of payroll transactions to determine whether they were properly calculated based on Board-approved rates and actual hours worked.
- We tested a sample of disbursements to determine whether they were Board-approved, properly documented and for legitimate Town purposes.
- We tested all receipts to determine whether they were deposited intact and timely.

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

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

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