

Town of Dayton

Supervisor's Records and Reports

JANUARY 2020



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

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Report Highlights

Town of Dayton

Audit Objective

Determine whether the Town Supervisor (Supervisor) maintains complete and accurate financial records and reports.

Key Findings

The Supervisor:

- Did not maintain complete and accurate financial records and reports.
- Did not issue receipts.
- Did not submit an annual accounting to the Board for its audit of the Supervisor's records.

Key Recommendations

The Supervisor should:

- Maintain complete and accurate financial records and properly receipt all revenues, when required.
- Provide the Board the appropriate reports it needs to properly monitor the Town's financial operations.

The Board should:

- Annually audit the Supervisor's records, as required.

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

Appendix B includes our comments on issues raised in the Town's response letter.

Background

The Town of Dayton (Town) is located in Cattaraugus County (County).

The Town is governed by an elected Town Board (Board) composed of five members including the Supervisor. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor is the chief financial officer and is responsible for the day-to-day financial operations.

The Town provides various services to its residents. Because the Village of South Dayton is within the Town's boundaries, the Town's services are accounted for in four major operating funds.

The current Supervisor's term began on January 1, 2018.

Quick Facts

Population	1,800
2019 Budgeted General Fund* Appropriations	\$222,100
2019 Highway Fund* Appropriations	\$426,100

*Includes town-wide and part-town funds

Audit Period

January 1, 2018 – June 4, 2019

Supervisor's Records and Reports

What Are the Supervisor's Fiscal Responsibilities?

As the chief financial officer, the supervisor must maintain suitable financial records that are based on complete, accurate and up-to-date information in a manner consistent with the Uniform System of Accounts established by the New York State Comptroller. The supervisor is also responsible for collecting, receiving¹ and having custody of all money belonging to or due the town. New York State Town Law² requires the supervisor to deposit town money within 10 days after receipt. The supervisor is authorized to pay out money only upon warrant of the town clerk after the town board's audit of claims.

The supervisor is also responsible for preparing and providing complete and timely financial reports to the board so it can properly monitor the town's financial affairs. The supervisor must provide a detailed monthly statement of all money received and disbursements made to the board.³ Other reports could also be submitted monthly, such as comparisons of budget estimates with actual transactions, an analysis of investment activity or a capital project status report.

New York State Town Law⁴ requires the supervisor to submit an annual accounting to the board on or before January 20th for all money received and disbursed during the preceding year, unless a certified public accountant or public accountant has been hired to audit the supervisor's records within 60 days after the close of the fiscal year. The annual accounting helps the board fulfill its overall fiscal oversight responsibilities by providing it with an opportunity to assess the reliability of the books, records and supporting documents. It also serves to identify conditions that need improvement and provides useful information to help the board oversee the town's financial operations.

While permissible, if the board contracts with an accounting firm to assist the supervisor in fulfilling his or her financial duties, the supervisor remains responsible for these functions and should provide sufficient oversight to ensure the firm does so adequately.

The Supervisor's Financial Records and Reports Were Not Complete and Accurate

Beginning January 1, 2018, the Board entered into an agreement with a certified public accounting firm (Firm) to assist the Supervisor in performing her financial duties. Among certain other responsibilities, the agreement indicates that the Firm is responsible to account for the Town's financial activity and also reconcile

1 An acceptable receipt form must be issued for money received if there is no other evidence satisfactory for audit.

2 New York State Town Law Section 29

3 Town Law Section 125

4 Town Law Section 123

the Town's bank accounts. While the agreement also indicates that the Firm will prepare annual and monthly statements of revenues and expenditures reports using both the cash basis and modified accrual basis of accounting, we found that the Firm uses the cash basis throughout the year and modified accrual basis for year-end reporting. We also found that the agreement specifically states that the Firm will not prepare balance sheet⁵ reports.

The Supervisor indicated that she relies on the Firm to handle the day-to-day accounting activities and did not provide adequate oversight of the Firm because she does not have an accounting background and had not attended any training related to the Supervisor's job duties.⁶ As of the beginning of the agreement with the Firm in 2018, the Town's computerized financial records, which include budgetary, revenue, expenditure and payroll records, are maintained by the Firm and housed within the Firm's financial software system. The Supervisor cannot access this software while at Town hall. The Supervisor instead maintains a binder which holds her documents by month, including payroll records⁷ as prepared by the Firm and support for revenues she receives, such as check images and stubs. The Supervisor generally keeps this binder at her home.

In order for the Firm to update the financial records, the Town generally transmits information to the Firm by fax or email. For example, the Supervisor was not aware of the statutory 10-day requirement for deposits and does not issue receipts, but instead generally takes pictures on her phone of money she receives at the Town, which is typically in check payments, and emails these images to the Firm. She subsequently makes deposits about twice a month. The Firm has view access to the Town's bank accounts online and determines where to record the revenues based on the information the Supervisor transmits. As a result of this process, the Supervisor does not ensure all Town money is properly receipted and deposited timely.

In order to process disbursements, the Town Clerk (Clerk) transmits an abstract of vouchers⁸ by fax to the Firm who then updates the financial records based on the Clerk's abstract to reflect which appropriation accounts the expenditures will be charged to. The Firm then prepares the checks for disbursement and provides the checks to the Supervisor. Generally,⁹ at the next Board meeting, the Board performs an audit of claims and reviews the abstract, voucher packages

5 The financial statement disclosing the assets, liabilities and equity of an entity at a specified date.

6 We note that subsequent to our audit fieldwork discussions with the Supervisor, she attended two training events which focused on town supervisor's duties and town financial operations.

7 Payroll records include personal, private and sensitive information (PPSI) and should be stored securely.

8 Includes the abstract date, voucher numbers, vendor names, payment amounts and the fund and appropriation accounts to record the disbursement in.

9 Payments for fixed salaries, compensation of officers or employees, principal and interest on indebtedness, utilities or amounts becoming due on certain contracts which exceed one year for which provision has been made in the budget, are not required by law to be audited before payment.

and corresponding checks. After claims are approved, the Supervisor signs the checks and the Clerk mails out the payments. As a result of this process, the Supervisor's records reflect disbursement activity before it was properly approved and disbursed.

We assessed the monthly reports and found they were not adequately complete. The budget-to-actual status reports did not meet the statutory requirements the Supervisor is required to fulfill because they did not specifically identify itemized monthly receipt and disbursement activity. Instead, they report cumulative, budget-to-actual amounts on a year-to-date basis. We noted no significant exceptions with the bank reconciliations the Firm sent to the Board.

We also found that an annual audit of the Supervisor's records had not been performed. The Supervisor told us she was unaware of this requirement and had not provided the records to the Board.

As a consequence of the issues we identified with the Supervisor's financial records and reports and the lack of sufficient Board oversight, we performed certain audit tests to assess the accuracy and reliability of the records and reports. For example, we reviewed all six deposits totaling \$92,819 made by the Supervisor from September 12, 2018 through December 11, 2018, to determine whether they were properly reflected in the financial records and reports.

While the Supervisor deposited \$68,845 during the months of September through November 2018, the revenue reported to the Board for the same period totaled \$77,592, or \$8,747 more than what was deposited. In September 2018, the Firm recorded the CHIPS revenue¹⁰ totaling \$14,389, which is paid by check, in the Board report. However, this money was not actually received and deposited until December 2018, or nearly three months later. A Firm employee could not explain why this was done and indicated that it may have been in error.

Additionally, contributing to the monthly variances were shared service payments the Town received and deposited totaling \$3,208. While the Town did not have any written agreements to authorize these arrangements, officials asserted that the Town had verbal agreements in place with the Village of South Dayton to share certain services such as website support, workers' compensation coverage and snow removal.¹¹ None of these revenues were included in the Supervisor's monthly reports to the Board. Instead, the Firm recorded the money received as a credit to the corresponding expenditure accounts. We noted no significant exceptions with the remaining causes of the variances which resulted primarily due to timing issues between deposit and revenue recognition of the Town's

10 Consolidated Local Street and Highway Improvement Program

11 It was not within the scope of this audit to assess whether these shared service arrangements were properly established and authorized. As such, we encourage the Board to contact the Town's legal counsel for guidance regarding these arrangements.

Justice Court fines and fees (\$1,994) and one chargeback paid to the County (\$464).¹²

We also traced all of the Town's disbursements during these same three months totaling approximately \$134,000 and found that they were generally properly included in the monthly financial reports to the Board.

In summary, it is important that revenues and expenditures are properly and accurately recorded in the accounting system so that financial reports to the Board provide an accurate picture of the Town's finances. Had the Board performed, or contracted with a certified public accountant to perform, the required annual audit of the Supervisor's records, the control deficiencies and exceptions identified in our report may have been mitigated or detected earlier and corrected.

What Do We Recommend?

The Supervisor should:

1. Continue making use of available resources to help perform the Supervisor's fiscal oversight responsibilities, such as the New York State Comptroller's Office (OSC) training and publications resources at: <http://www.osc.state.ny.us/localgov/academy/index.htm> and <http://www.osc.state.ny.us/localgov/pubs/publisting.htm>.
2. Properly monitor the Firm performing the recordkeeping duties and ensure that the Supervisor's records are complete and accurately maintained.
3. Issue, when required, and record receipts for money received and promptly deposit money no later than 10 days after receipt.
4. Provide the Board a monthly report of receipts and disbursements, as required.
5. Submit the Supervisor's records to the Board on or by January 20th for audit.

The Board should:

6. Ensure it requests and receives the appropriate reports to monitor the Town's financial operations.

¹² \$8,747 = \$14,389 (CHIPS revenue on report but not received and deposited until December) - \$3,208 (reimbursements not on reports) - \$1,994 (net Justice Court revenue timing delay) - \$464 (County chargeback) + \$24 (interest earned but not recorded as revenue on the reports)

-
7. Conduct an annual audit of the Supervisor's records or engage a certified public accountant or public accountant to conduct the audit. For guidance on conducting annual audits, the Board and Town officials should refer to our publication entitled, Local Government Management Guide – Fiscal Oversight Responsibilities of the Governing Board available at: <http://www.osc.state.ny.us/localgov/pubs/publisting.htm>

Appendix A: Response From Town Officials

1

Town of Dayton
9100 Route 62
South Dayton, NY 14138

Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

01/15/2020

Audit Report Title: Supervisor's Records and Reports
Audit Report Number: 2019M-189

The Town of Dayton is in receipt of the draft report of the NYS Comptroller's Office for the audit period of January 1, 2018 – June 4, 2019. It is a priority of the Town Supervisor and Board to provide transparency and accountability to its taxpayers and we appreciate the suggestions for improvement in attaining these goals. The Town concurs with the recommendations included in the report, and will address the findings and our corrective actions in the same order that the findings and recommendations appear in your report.

The Supervisor should:

Audit Recommendation:

The Supervisor should continue making use of available resources to help her perform her fiscal oversight.

Response:

As a new Supervisor in January of 2018, training was received as soon as it was available and the use of resources from the State Comptroller's Office has been implemented.

The Town Supervisor has and will continue to use the resources available from the New York State Comptroller's Office. In addition, the Town Supervisor plans to attend additional training in the coming year and will continue to attend training into the future.

Audit Recommendation:

Properly monitor the Firm performing her recordkeeping duties and ensure that the records are complete and accurately maintained.

Response:

While the Town agrees that monitoring the accounting firm is important, it feels that it was monitoring the activities of the firm to ensure complete and accurate accounting records.

Since inception of the contracted accounting firm, on a monthly basis, the Town Supervisor receives copies of all bank reconciliations, a report detailing all highway expenditures by account, a report that shows cumulative revenues and expenditures for all funds compared to budget and a listing of each bank account with its bank balance at the end of the month. The bank reconciliations include a listing of deposits made and checks written during the month. These reports are brought by the Supervisor to the Board meeting for the Board members to review monthly. The Town Supervisor and Board members approve all vouchers, prior to their payment, at every monthly Board meeting and are familiar with the expenditures that are included on the monthly report. Additionally, the Town Supervisor receives the abstract that shows each check requested to be written, the amount, the account charged for the expenditure and the check number of each check written; then signs each check. The Town Supervisor makes all deposits for the Town and is aware of revenues that are anticipated to be included on the monthly reports.

See Note 1 Page 11

The NYS Comptroller's audit report discusses deposits for the months of September through November 2018 not agreeing to the revenue presented in the financial statements. A reconciliation was provided to the NYS Comptroller's auditor which they agreed with. Some of the monies received were reimbursement payments and therefore should not be included in the revenue, but rather as a reduction to the expenditure account in the financial reports. The largest difference was a receivable for \$14,389 that was booked for PAVE NY monies that the Town had expended and was scheduled to receive from NYS prior to the end of the year. This is why the revenue was included in the financial statements prior to the receipt of the revenue. The PAVE NY monies are required to be expended prior to the Town being reimbursed. The revenue amount was not unexplained or unidentified by the Firm and agreed to the amount that was subsequently received by the Town.

See Note 2 Page 11

See Note 3 Page 11

In addition, the Town Supervisor, Highway Superintendent and Board members are in contact with the accounting firm on at least a weekly basis.

Due to the processes listed above, the Town feels that they were monitoring adequately monitoring the accounting firm.

To further monitor the Firm, the Town has requested and been receiving a detail ledger that lists all transactions, in all accounts, in all funds, on a monthly basis since May of 2019.

Audit Recommendation:

Issue, when required, and record receipts for money received and promptly deposit money no later than 10 days after receipt.

Response:

The Town agrees with this recommendation and has implemented the use of cash receipt forms and has implemented procedures whereby the Town Supervisor is notified by the Town Clerk if monies are at the Town that need to be deposited to ensure funds are deposited within the 10 day requirement.

Audit Recommendation:

Provide the Board a monthly report of receipts and disbursements as required.

Response:

The Board received this information monthly, but additional reporting has been implemented as described above.

Audit Recommendation:

Submit supervisor's accounting records to the Board on or by January 20th for audit.

Response:

The Town agrees with this recommendation and received the 2019 records on January 8, 2020 and intends to perform its audit prior to January 31, 2020. The Board will continue to audit the records of the Supervisor on an annual basis.

The Board should:

Audit Recommendation:

Ensure it requests and receives appropriate reports to monitor the Town's financial operations.

Response:

As described above the Town feels that appropriate reports were received to monitor financial operations, but has in addition requested the report detailing all transactions in all accounts.

Audit Recommendation:

Conduct an annual audit of the Supervisor's records or engage a certified public accountant or public accountant to conduct the audit.

Response:

As described above, the Board plans to audit the 2019 records prior to January 31, 2020, and will continue this practice in the future.

Sincerely,

Angie Mardino-Miller
Town of Dayton Supervisor

Appendix B: OSC Comments on the Town's Response

Note 1

The Firm did not provide a monthly budget status report which contained monthly-specific financial activity, instead the report reflected cumulative year-to-date totals.

Note 2

Shared services payments should be properly receipted and recorded as intergovernmental revenues and not as a reduction of expenditures.

Note 3

An employee from the Firm told us that, as a general practice, the Firm records the Town's financial activity on a cash basis throughout the year and then will record certain accruals at year-end for any significant activity. However, based on the additional information provided in the Town's response, we modified our report to clarify the issue.

Appendix C: 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 objective¹³ and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Board members, Town officials and an employee of the Firm and reviewed Board meeting minutes, monthly financial reports provided to the Board and the Town's agreements with the Firm to:
 - Gain an understanding of the Town's accounting, financial reporting and oversight practices.
 - Determine whether an annual audit of the Supervisor's records was performed.
 - Determine whether the Supervisor and Board members attended training related to our audit objective.
- We requested and reviewed the Supervisor's manual and computerized financial records to determine whether sufficient records existed and whether the Town's financial activity was properly recorded and subsequently reported to the Board.
- We compared the Town's adjusted bank balances for all funds with the cash recorded in the financial records for months ending September 2018 through November 2018. We used our professional judgment and selected these months because they were the last three completed months of the Town's financial activity available when we began our audit fieldwork. We assessed whether the financial activity was properly reconciled, accounted for and reported to the Board. We also traced disbursements during these months to assess whether they were properly recorded and reported to the Board.

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.

¹³ We also issued a separate audit report, *Town of Dayton – Fund Balance Management (2019M-221)*.

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 D: 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/pubs/cyber-security-guide.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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Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

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

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

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