



Town of Decatur Financial Operations

Report of Examination

Period Covered:

January 1, 2011 — May 25, 2012

2012M-163



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

November 2012

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Decatur, entitled Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of Decatur (Town) is located in Otsego County. The Town has 353 residents and provides various services, including street maintenance, snow removal, and general government support. The Town's annual budget for the 2012 fiscal year was approximately \$443,000, which was financed primarily by real property taxes, State aid, and sales tax.

An elected five-member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four Council members, governs the Town. The Supervisor serves as the Town's chief executive officer and chief fiscal officer. The Town hired a bookkeeper in January 2011, but the Supervisor took over bookkeeping duties in May 2011. These responsibilities include maintaining the Town's accounting records, producing various financial reports, making disbursements, and other duties.

Objective

The objective of our audit was to ensure that the Board properly monitored the Town's fiscal operations. Our audit addressed the following related question:

- Did the Board and Supervisor ensure that only authorized disbursements were made and the Town's financial activity was accurately reported?

Scope and Methodology

We examined various Town accounting records and reports for the period January 1, 2011, to May 25, 2012.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our results and recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue raised in the Town's response letter.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the 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 this plan available for public review in the Town Clerk's office.

Financial Operations

The Board is responsible for the general management and control of the Town's finances and operations and protection of Town assets. The Supervisor is responsible for the Town's day-to-day financial activities, including ensuring that all financial transactions are proper, recorded in the Town's accounting system, and accurately summarized in any financial reports. The Town Clerk (Clerk) is responsible for, among other duties, preparing claims packets for audit and preparing abstracts of claims. The Board also has the responsibility to audit all claims prior to their payment, and audit, or cause an audit of, the Supervisor's records on an annual basis. The Board and Supervisor must ensure that employees are paid only for the hours they worked.

We found that the Board and Supervisor did not ensure that disbursements were for proper purposes and that financial reports were an accurate summary of the Town's financial activities. Also, the Supervisor submitted financial reports to the Board that were not always accurate.

Disbursements – Town officials cannot be sure that disbursements were for proper Town purposes. The Supervisor performs all duties relating to disbursements which are made without any oversight or verification of her work. There were payments made without adequate supporting documentation or without being audited by the Board prior to being paid. Out of 57 non-payroll disbursements reviewed totaling \$52,418, we found the following discrepancies:

- Nine disbursements, totaling \$7,951, were audited and approved by the Board even though the claims packet did not have adequate supporting documentation (i.e., invoices or receipts). These disbursements included checks written to vendors relating to utilities, credit cards, auto parts, and postage.
- There were four instances, with check amounts totaling \$6,711, where either the check image did not match the amount of the claim listed on the abstract or the Supervisor changed the amount of the claim listed on the abstract with correction fluid to reflect additional invoices from the same vendors that were received after the Board had audited them. There was no way to determine if these changes were made before or after the Board's audit. These disbursements included checks written to vendors relating to a telephone bill, credit card bill, fuel oil, and chains for Town trucks.

- Two disbursements, totaling \$100, did have adequate supporting documentation and were listed on a warrant certified by the Clerk as audited by the Board, but there was no evidence the Board actually audited and approved them.¹ These were checks written to the Supervisor for reimbursement for the purchase of supplies and to a newspaper for a public notice advertisement.
- Five disbursements included late fees, finance charges, or State sales tax² totaling \$61.

Included in the 57 non-payroll disbursements we reviewed were six disbursements totaling \$2,714 made to the Town's credit card company based on statements sent to the Supervisor's home address.³ The statements simply listed a vendor's name and purchase amounts. For three of these six disbursements, totaling \$1,627, there were no individual invoices or receipts attached to the claims that would describe the specific items purchased or their purpose. Payments made to the credit card company were for purchases from a local auto sales dealership (\$167) and an online racing parts distributor (\$208). According to two Board members, they review the credit card receipts and invoices, but they do not review the credit card statements. However, half of the credit card claims packets we reviewed included only the credit card statement and no invoices or receipts to support the charges. It was not apparent what was purchased or why the Supervisor would be buying auto parts for the Town. The Supervisor told us that she is the only one authorized to use the Town's credit card, and the auto parts were specially ordered parts on the behalf of the Highway Superintendent for one of the Town's trucks. Nevertheless, without supporting documentation attached to the claims packets, it is difficult to determine if the expenditures were for proper Town purposes and whether the Board had sufficient information available to properly review and approve the claims packets for payment.

Payroll – Town officials cannot be sure that employees are paid for only the hours they worked. While the Highway Superintendent is responsible for providing the Supervisor with the number of hours worked by his employees, the Supervisor performs the remaining payroll duties. Additionally, the Highway Superintendent was presigning blank bi-weekly timesheets on which each employee recorded their hours, which made it impossible to verify if he was

¹Each of the Board members typically signed each claim as evidence of their audit.

²Municipalities are exempt from paying State sales tax.

³According to the Supervisor, the credit card company will not send the statements to the Town's post office box.

reviewing the timesheets.⁴ We reviewed the two July 2011 and January 2012 payrolls and found multiple immaterial errors, which the Supervisor has since corrected.

Financial Reporting – The Supervisor’s monthly reports provided to the Board were inaccurate and did not report consistent information. For example, in October 2011, adjusted bank balances for three out of five accounts did not reconcile to book balances and, in January 2012, the balances did not reconcile for any of the five accounts (as of June 1, 2012).⁵

While we were on site, the Supervisor actively sought our help in reconciling her bank accounts and improving her monthly reports and, as of June 11, 2012, the Supervisor reconciled all of the 2012 bank balances to the accounting records.

The failure of detection of many of the discrepancies noted in this report can be attributed to a lack of segregation of duties with insufficient mitigating controls. The Supervisor performed functions that should have been done by the Clerk, such as preparing claims packets for audit and preparing abstracts of claims. In addition, the Board has no procedures in place to ensure they are auditing all claims for which disbursements are made, because it does not compare canceled check images with its approved claims or warrants. Also, the Board does not compare payroll disbursements to payroll reports to ensure employees are being paid accurately, and it does not receive or review any supporting documentation, such as bank statements or detail accounting records, to verify the accuracy of the Supervisor’s monthly financial reports.

Moreover, the Board does not audit the Supervisor’s records. One Board member told us that he was not aware that the Supervisor’s duties should be segregated, and another Board member told us that he had requested an audit of the Supervisor’s records (to no avail) because of the lack of segregation of duties; however, there is no indication of this request in the Board minutes. The Supervisor told us that she recently learned about the requirement for the Board to audit her records at training, and she stated that her records would be audited at the end of the 2012 fiscal year. The Supervisor had difficulties reconciling adjusted bank balances to book balances because of the discrepancies in payroll mentioned above and because she had taken over bookkeeping duties mid-year and was still in the learning process.

⁴We discussed this with the Highway Superintendent, and he removed his signature from the electronic template he uses for his employees’ timesheets.

⁵The Supervisor amended the format of her monthly report to correct this issue in May 2012 by including a separate column for book balance, bank balance, and reconciled difference.

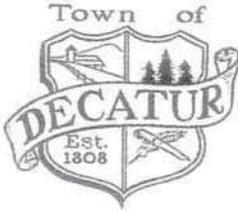
Recommendations

1. The Clerk should prepare the claims packets for audit and prepare the abstracts of claims.
2. The Board should ensure that no one individual has custody of the assets, the ability to authorize a transaction, and the responsibility to record and report the transaction. When segregation of duties is not practical, the Board should establish mitigating controls, such as:
 - The Board should have a procedure in place to ensure that all the checks issued by the Supervisor are listed on an approved abstract and audited by the Board.
 - The Board should review payrolls periodically.
 - The Board should review supporting documentation, such as bank statements or detailed accounting records, to verify the accuracy of the Supervisor's monthly financial reports.
3. The Board should audit the Supervisor's financial records on an annual basis.
4. The Supervisor should prepare complete and accurate financial records and reports, including reconciling the book balance to the adjusted bank balance monthly; reporting accurate monthly receipts, disbursements, and cash balances; and preparing accurate payrolls to ensure employees are paid proper amounts.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.



TOWN OF DECATUR
P.O. Box 332
Worcester, NY 12197
Fax: 607-397-8211

H. Todd Eames, Chief Examiner
Binghamton Regional Office
State Office Building Room 1702
44 Hawley Street
Binghamton, NY 13901-4417
November 15, 2012

RE: Town of Decatur Audit

Dear H. Todd Eames,

This letter is intended to cover the audit response and also the CAP.

I, as Supervisor of the Town of Decatur, was glad for the opportunity to learn from the audit team on how to perform my duties in a manner that is more efficient and also protects myself from any misjudgments. I have always been open and honest with the board and with the audit team.

As far as the draft goes, if the changes of wording was made in paragraph two (2), stating "that changes were made after the board audited the invoices", to read "because of whiteout corrections being used, we are not sure if the changes were made before or after in invoices were audited", then I would agree with your findings. The only bills that are paid before town audit are for any that may incur a late fee. This is done by resolution from the town board and is recorded in our minutes.

See
Note 1
Page 11

I spoke with the board several times about my trouble with the payroll account. They were being patient with me while I was learning the process. The men were always paid what they were owed, even if I had to reconcile in the next check. This only happened twice. All accounts are now in order and match the banks.

After a meeting with the board and Clerk these changes will be or have already been made.

1. As of the first of the year the clerk will prepare all abstracts and claim packets.
2. Starting with December's meeting, the Board, Supervisor and Clerk will look closer at the invoices and make sure that all of them are signed by the board. The board will review payroll, bank statements and documentation periodically.
3. The Supervisor's financial record will be audited yearly along with the Justice, Clerk and Tax Collector. The Board has access to all records at any time.
4. The bank statements are presented with book amount, bank amount and difference. Paper work is shown to prove why there is a difference, such as outstanding checks. These changes took place in May 2012.

In July, payroll software was purchased by the supervisor, to help keep accurate records and be able to file monthly and yearly reports.

Sincerely

Grace Pongrac
Supervisor

GP/sm

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

We amended our report based on information provided by the Town.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine financial information to ensure that only authorized disbursements were made and that the Town's financial activity was accurately reported. To accomplish the objective of this audit and obtain valid evidence, our audit procedures included the following:

- We interviewed the Supervisor, three Board members, and other staff to gain an understanding of disbursement procedures and controls and to determine the cause of any deficiencies relating to our audit objective.
- We compared 100 percent of the canceled check images payable to the Supervisor during our audit period from the highway fund and general fund checking accounts to Board-approved warrants and claims packets to determine if they were Board-approved.
- We reviewed all check images from the highway fund and general fund checking accounts during our audit period and selected five checks payable to non-typical Town vendors. We traced each of these checks to Board-approved warrants and claims packets to determine if they were Board-approved and for appropriate Town purposes.
- We reviewed all check images from the highway fund and general fund checking accounts during our audit period and selected eight checks payable to vendors that could be paid for personal expenses. We traced each of these checks to Board-approved warrants and claims packets to determine if they were Board-approved and that only Town bills were attached.
- We scanned all of the Town's bank statements for withdrawals and transfers out (non-check disbursements) during December 2011 and January 2012 and traced each of these disbursements to deposits or transfers to another Town account or to Board-approved supporting documentation to determine if they were appropriate Town disbursements.
- We reviewed the September 2011 and March 2012 payroll reports for employees who did not have withholdings deducted from their salary. For each employee paid on the September 2011 payroll report, we reviewed the employees' withholding allowance certificate (W-4 form) and wage and tax statements (W-2 form) to determine if they were legitimate employees. For any employee who did not have withholdings deducted from their salary, we reviewed the employee's request for a taxpayer identification number and certification (form W-9) to determine if the employee is actually exempt from these withholdings.
- We documented the number of payments each employee should receive based on whether they were paid bi-weekly, monthly, quarterly, semi-annually, or annually and compared that to the number of payments each employee actually received. We interviewed the Supervisor to determine if any discrepancies in the number of payments were for appropriate Town purposes.

- We reviewed each payroll account canceled check image during our audit period, searching for names not included on the elected officials, appointed officials, or highway employees list provided to us by the Supervisor. For any payroll account payments made to individuals not listed on the employee lists, we requested adequate supporting documentation and explanation from the Supervisor to support the payments.
- We reviewed all payroll account canceled check images paid during the 2011 fiscal year, searching for checks payable to the Supervisor. We traced the sum of all such check amounts to the 2011 budgeted amount payable to the Supervisor (and to the bookkeeper for the period that the Supervisor also acted as bookkeeper from May 2011 through December 2011) and to the Supervisor's W-2 form for the 2011 fiscal year. We also reviewed the gross and net salaries computed for the Supervisor on the 2012 payroll reports and compared the gross amounts paid to the 2012 annual budget for the Supervisor and bookkeeper's salaries, and we traced the net amounts paid to the canceled check images to determine if the Supervisor was being paid in accordance with Board-approved budgeted amounts.
- We traced direct deposit transfer amounts from the July 2011 and January 2012 payroll account bank statements to the direct deposit transfer amounts listed on the July 2011 and January 2012 payroll reports to determine if the transfer amounts matched.
- We traced canceled check images from the August 2011 highway fund and January 2012 general fund checking account bank statements to Board-approved warrants, comparing check numbers, payee, amounts, and check dates to determine if they matched.
- We reviewed credit card payments and statements to determine if there was sufficient information available, reviewed, and approved by the Board prior to paying credit card bills.
- From the October 2011 and January 2012 monthly financial reports, we compared amounts reported as receipts to bank deposits and accounting records, and compared amounts reported as disbursements to payroll reports or Board-approved warrants and accounting records to determine if the amounts agreed.
- We compared one disbursement from each abstract (general fund and highway fund) for October 2011 and January 2012 to the accounting records and canceled check images to determine if the account codes, amounts, vendors, and check numbers were accurately recorded.
- We selected a general fund employee and a highway fund employee from each payroll in October 2011 and January 2012 and traced the amounts paid to these employees to the accounting records and canceled check images to determine the accuracy of the account codes, amounts, payees, and check numbers. In addition, we traced the withholdings from these employees' paychecks per the payroll reports to the amounts paid to the Internal Revenue Service (IRS) and the State per the bank statements.
- We compared the adjusted bank balance to the Supervisor's book balance for all bank accounts in October 2011 and January 2012 to determine if the bank accounts were properly reconciled.

- We reviewed the sequence of canceled check images from the October 2011 and January 2012 general fund and highway fund checking accounts, searching for any gaps in check sequence. For any gaps in the check sequence, we scanned the next six months' bank statements to determine if the check cleared the bank. We also traced the check numbers that were missing in the check sequence to the voided check to determine if it was voided and kept on file, or to an outstanding check list to ensure that outstanding checks were accounted for in the reconciliation process.

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

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