



Town of German Flatts Board Oversight

Report of Examination

Period Covered:

January 1, 2010 — September 30, 2011

2012M-17



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of Local Officials and Corrective Action	6
WAGES AND SALARIES	7
Recommendations	8
TAXPAYER EQUITY	9
Recommendations	10
ANNUAL AUDIT	12
Recommendation	12
APPENDIX A Response From Local Officials	13
APPENDIX B Audit Methodology and Standards	16
APPENDIX C How to Obtain Additional Copies of the Report	17
APPENDIX D Local Regional Office Listing	18

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 German Flatts, entitled Board Oversight. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of German Flatts (Town) is located in Herkimer County, has a population of approximately 13,300 residents and includes the Village of Mohawk and the Village of Ilion. The Town provides a variety of services to its residents including fire protection, street maintenance, snow removal, street lighting, water and general government support. For the 2011 year, the Town's budgeted expenditures were approximately \$2.2 million, funded primarily by real property taxes, State aid and sales tax. The Town is governed by an elected Town Board (Board), which comprises the Town Supervisor (Supervisor) and four Board members. The Supervisor is the Town's chief fiscal officer.

Scope and Objective

The objective of our audit was to evaluate the Board oversight of the Town's financial operations for the period January 1, 2010 to September 30, 2011. Our audit addressed the following related questions:

- Did the Board ensure that Town employees were accurately paid Board-approved wages and salaries?
- Did the Board ensure that the Town's financial activity was accurately recorded and take appropriate action to maintain taxpayer equity?
- Did the Board perform a complete annual audit as required?

Audit Results

The Board did not ensure that Town employees were accurately paid Board-approved wages and salaries. The Board did not authorize the wages paid to highway employees or the part-time assessor totaling \$405,292. In addition, the Supervisor increased the salaries of seven employees by a total of \$15,044 without seeking Board approval and without informing either the Board or the public of the additional payments. When the Supervisor pays compensation that is not authorized by a Board resolution at a public meeting, it is not transparent, because taxpayers are not informed about how their tax moneys are being spent.

The Board did not ensure that the Town's financial activity was accurately recorded and did not take appropriate action to maintain taxpayer equity. Town officials did not allocate highway expenditures to the highway-outside-village fund or the town-wide highway fund based on the type of service provided as required by law.¹ In total, we identified overcharges to the town-outside-village residents that totaled

¹ Highway repairs and improvements are charged to the highway-outside-village fund. Bridges, machinery and snow and miscellaneous expenditures are charged to the Town-wide highway fund.

\$15,495. In addition, highway payrolls totaling \$393,976 were allocated: \$317,487 to the highway-outside-village fund and \$76,489 to the Town-wide highway fund. However, the Superintendent did not maintain records of the actual work performed. As a result, Town officials cannot ensure that these costs were allocated in an equitable manner to the appropriate tax bases.

The Board did not perform complete annual audits of the records and reports of the officers and employees who received or disbursed cash, as required by Town Law. Although the Board minutes stated that the Board has audited the 2010 records of the Tax Collector, Town Clerk and Town Justices, the Supervisor told us the Board members merely signed the last page of each official's records. Moreover, the Board members did not audit the Town Supervisor's records. Without an effectively performed annual audit, the Board has diminished its ability to monitor the Town's financial operations and has failed to detect errors in the Bookkeeper's records. In addition, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

Comments of Local Officials

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 recommendations and indicated they had already taken or planned to take corrective action.

Introduction

Background

The Town of German Flatts (Town) is located in Herkimer County, has a population of approximately 13,300 residents and includes the Village of Mohawk and the Village of Ilion. The Town provides a variety of services to its residents including fire protection, street maintenance, snow removal, street lighting, water and general government support. For the 2011 year, the Town's budgeted expenditures were \$1.2 million for its general fund and \$1 million for its highway fund, funded primarily by real property taxes, State aid and sales tax.

The Town is governed by the Town Board (Board), comprising five elected members, including the Town Supervisor (Supervisor). The Board is responsible for the general management and oversight of the Town's financial and operational affairs of the Town. The Supervisor is the Town's chief fiscal officer and is responsible for most of the Town's financial duties. The Board annually appoints a bookkeeper to assist the Supervisor with maintaining the Town's financial records. In addition, the Town hired an accounting firm to record financial transactions electronically and to prepare monthly and annual financial reports for the Board. The Town also hired an individual to process payroll and disbursements checks (payroll and non-payroll). The Highway Superintendent (Superintendent) is an elected official with specific duties and responsibilities under Highway Law and is primarily responsible for the Town's highway operations, overseeing seven Highway Department employees.

Objective

The objective of our audit was to evaluate the Board oversight of the Town's financial operations. Our audit addressed the following related questions:

- Did the Board ensure that Town employees were accurately paid Board-approved wages and salaries?
- Did the Board ensure that the Town's financial activity was accurately recorded and take appropriate action to maintain taxpayer equity?
- Did the Board perform a complete annual audit as required?

Scope and Methodology

We examined the Board's oversight of wages and salaries, taxpayer equity, and the annual audit process for the period January 1, 2010 to September 30, 2011.

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 B 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 recommendations and indicated they had already taken or planned to take corrective action.

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 Town Board to make this plan available for public review in the Town Clerk's office.

Wages and Salaries

Wages and salaries comprise the most significant portion of the Town's budget. All compensation provided to Town officers and employees must be properly authorized. Written documentation of this authorization – by resolution, a policy document approved by the Board, or a negotiated employment contract – is an important internal control over payroll expenditures because it communicates the Board's intent.

The Board did not ensure that Town employees were accurately paid Board-approved wages and salaries. The Board did not authorize wages paid to highway employees or the part-time assessor totaling \$405,292. In addition, although the Board specifically authorized salaries for seven employees totaling \$191,450, the Supervisor paid those individuals additional moneys totaling \$15,044 without seeking Board approval and without informing either the Board or the public of the additional payments.

The Supervisor may make wage and salary recommendations for Board consideration. However, the Board is responsible for authorizing compensation for Town officials and employees. The Board's authorized pay rates should be documented in the Board's minutes. We reviewed wages and salaries paid to Town officials and employees from January 2010 through September 2011 totaling over \$1.1 million. We found that the Board did not authorize wages and salaries paid totaling \$420,336² as follows:

- The Board did not authorize the wages for highway employees totaling \$399,130 or wages for the part-time clerk in the Assessor's office totaling \$6,162. The Supervisor told us he should have included the hourly wage rates for the highway employees in his presentation of "other employee salaries" during the annual reorganization meeting. The Supervisor also told us he should have set the rate for the part-time clerk formally, by a Board resolution.

² Unauthorized amounts were paid for 2010 to highway employees, \$231, 957; part-time clerk in the Assessor's office, \$6,162; Town Justice \$3,817; Assessor \$2,400; Assessor's trainee, \$2,400; and court clerk, \$1,330. Unauthorized amounts were paid for January to September 2011 to highway employees, \$167,173; Assessor, \$1,327; Assessor trainee \$1,181; Assistant Receiver of Taxes, \$1,367; Deputy Clerk, \$876; and Receiver of Taxes; \$346.

- The Board authorized salaries for seven officers and employees totaling \$191,450 at the annual organizational meeting in January. However, the Supervisor increased salaries over the Board-authorized amounts by \$15,044 as follows: Town Justice, \$3,817; Assessor, \$3,727; Assessor Trainee, \$3,581; Assistant Receiver of Taxes, \$1,367; Court Clerk, \$1,330; Deputy Clerk, \$876; and the Receiver of Taxes \$346. The Supervisor told us that he restructured duties for the office personnel and decided to give those employees additional compensation for the extra duties assigned to them. He did this without getting the required authorization from the Board.

Recommendations

1. The Board should, by resolution, establish pay rates for all officials and employees.
2. The Supervisor should not pay any official or employee any amount in excess of the amount authorized by the Board.

Taxpayer Equity

The Villages of Mohawk and Ilion are located within the Town. Therefore, the Town must maintain separate funds to account for transactions that are required by law to be accounted for as part-town (outside village) activities. The Town's operating funds include the town-wide general and highway funds which have tax bases that encompass the whole Town, and the general and highway-outside-village funds which have tax bases that encompass only the portion of the Town that lies outside of the Villages. Highway expenditures must be allocated to town-wide or outside village highway funds based on the type of service provided. The Board must ensure that the Town's financial activity is recorded in the proper funds to maintain taxpayer equity.

We identified overcharges to the highway-outside-village fund for goods and services that totaled \$15,495. In addition, highway payrolls totaling \$393,976 were allocated: \$317,487 to the highway-outside-village fund and \$76,489 to the Town-wide highway fund. However, Town officials could not determine if the appropriate tax bases were charged.

Highway Expenditures — In towns containing villages, taxes for highway repairs and improvements are imposed on the area of the Town outside the Village, whereas, taxes for bridges, machinery and snow and miscellaneous expenditures are imposed on a Town-wide basis.³ Because highway employees can perform various services, the Superintendent must maintain accurate records showing the services that each highway employee actually performed. It is essential that these records then be used to allocate payroll costs to the proper fund. Not only does this help the Town to maintain equity among Town-wide and town-outside-village taxpayers, but it also helps Town officials develop more realistic budgets and accurately report the true cost of services.

However, we found the Superintendent did not document the work performed by highway employees. As a result, the bookkeeper did not have the information necessary to properly allocate payroll costs to the appropriate tax bases even if she had elected to do so. We reviewed purchases of goods and services and, highway payrolls and identified the following inequities within Town funds:

- Purchases – Our review of January and June 2011 abstracts for all funds totaling \$115,757 showed that \$15,682 was charged

³ A Town Board may elect to finance machinery, snow and miscellaneous expenditures with taxes from the area of the Town outside the villages. However, the German Flatts Town Board has not elected to do so.

to the residents outside the Villages that should have been charged to all Town residents and \$187 was charged to all Town residents that should have been charged to the residents outside the Villages. For example, bridge engineering services totaling \$8,344 and a bulk trash day for all Town residents totaling \$4,761 were incorrectly charged to town-outside-village funds. In another instance, although the Superintendent correctly coded a purchase of highway supplies totaling \$187 to the highway-outside-villages fund, the bookkeeper coded it as a general fund claim because she always codes supplies to the Town-wide general fund. Due to these errors, the town-outside-village residents were overcharged by \$15,495.

- Highway Payroll — Highway payroll allocations from January 2010 through September 2011 totaled \$393,976. The bookkeeper charged costs to a particular fund based on the weather⁴ or the availability of appropriations. Based on the bookkeeper's methods, \$68,929 of the 2010 payroll of \$226,957 (or 30 percent) and \$7,560 of the 2011 payroll of \$167,019 (or 5 percent) was charged to the Town-wide highway fund. The balance \$317,487 was charged to the highway-outside-village fund. Although the Superintendent provided the bookkeeper with the number of hours worked by highway employees, he did not maintain records of the actual work performed. As a result, the bookkeeper could not allocate costs to the appropriate tax bases even if she had elected to do so. As a result, Town officials could not determine if the appropriate tax bases were charged for services rendered, potentially creating additional inequity among taxpayers.

The Supervisor told us that he did not monitor the coding on the bills but instead relied on the bookkeeper to properly record Town transactions. The failure to ensure that expenditures were properly coded has caused inequities among the Town's taxpayers. The extent of these inequities cannot be determined due to the lack of records of the work performed by highway employees.

Recommendations

3. The Superintendent should document the work performed by highway employees and provide that information to the bookkeeper so payroll costs can be properly allocated between the Town-wide and town-outside-villages funds.

⁴ The bookkeeper explained to us that she coded the highway payroll based on the weather. If it was snowing when she received the hours from the Highway Superintendent for a specific pay period, she would charge the Town-wide highway fund and if it was nice weather she would charge the part-Town highway fund, because snow plowing is a Town-wide charge and street maintenance is a part-Town charge.

4. The Supervisor should ensure the bookkeeper allocates all costs to the proper tax base based on the actual services performed.

Annual Audit

Town Law requires that the Board annually audit, or cause to be audited, the financial records and reports of any officer or employee who receives or disburses Town money. A competent audit of cash accountability must include receipt and review of all pertinent documentation including all supporting books, records, receipts, warrants, vouchers, and canceled checks or check images. Town Law further requires the Board to audit or provide for the audit of these records and reports by the 20th of January.

The Board did not perform complete annual audits of the records and reports of the officers and employees who received or disbursed cash. Although the Board minutes state that the Board had audited the 2010 records of the Tax Collector, Town Clerk and Town Justices, the Supervisor told us the Board members merely signed the last page of each official's records. Board members signatures do not constitute an audit. Further, Board members did not have sufficient documentation to perform a meaningful audit even if they had elected to do so because the departments handling cash did not submit all supporting books, records, receipts, warrants, vouchers, and canceled checks or check images. Moreover, the Board members did not audit the Supervisor's records.

According to the Supervisor, the Board does not know how to audit the records and reports of officers or employees who receive or disburse cash. Without an effectively performed annual audit, the Board has diminished its ability to monitor the Town's financial operations. An effective annual audit could have, for example, detected the Bookkeeper's incorrect allocation of expenditures that cause inequities between the Town-wide and outside Village taxpayers.⁵ In addition, there is an increased risk that other errors or irregularities could occur and remain undetected and uncorrected.

Recommendation

5. By the 20th of January, the Board should conduct an effective audit of the records and reports of all officers and employees who received or disbursed moneys during the preceding fiscal year or hire an independent auditor to conduct the audits. For guidance on conducting annual audits, Town officials should refer to our publication entitled, *Local Government Management Guide — Fiscal Oversight Responsibilities of the Governing Board*.

⁵ See related comment entitled "Taxpayer Equity."

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Frank P. Spatto
Supervisor

Fred K. Markwardt
Salvatore J. Geloso
Robert K. Watkins
Fay G. Davis
Town Council

Town of German Flatts

66 East Main Street • P.O. Box 57
Mohawk, New York 13407-1137
Phone: 315-866-1370 • FAX: 315-866-9640

Marie K. Hennings
Town Clerk

Cherri L. Hyer
Receiver of Taxes

Andrew J. Dutcher
Superintendent of
Highways

April 3, 2012

Office of the State Comptroller
State Office Building, Room 409
333 East Washington Street
Syracuse, New York 13202-1428

Attn: Ms. Rebecca Wilcox, Chief Examiner

Dear Ms. Wilcox:

The following is our written response to the Office of the Sate Comptrollers' audit to evaluate the Board oversight of the Town's financial operations for the period January 1, 2010 to September 30, 2011.

Concerning the recommendations (1) regarding the Board should, by resolution, establish pay rates for all officials and employees (2) regarding the Supervisor should not pay any official or employee any amount in excess of the amount authorized by the Board.

Regarding these recommendations the highway employees' hourly rate was added to our organizational meeting on 01/04/12 along with all established pay rates for elected officials and will be maintained each year at our organizational meeting.

Concerning the recommendations (3) the Superintendent should document the work performed by highway employees and provide that the information the bookkeeper so that payroll costs can be properly allocated between the Town-wide and Town outside Villages funds (4) the Supervisor should ensure the bookkeeper allocates all costs the proper tax base based on the actual services performed.

Regarding these recommendations our Highway Superintendent is in the process of documenting highway cost codes for worked performed. Information is given to our bookkeeper and supervisor so we can properly allocate our payroll costs between Town-

wide and Town outside village funds. The total implementation will be completed by July 31, 2012.

Concerning the recommendation (5) By the 20th of January, the Board should conduct an effective audit of the records and reports of all officers and employees who received or disbursed moneys during the preceding fiscal year or hire an independent auditor to conduct the audits.

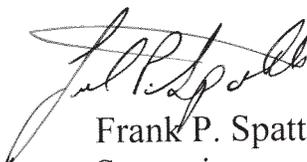
Regarding this recommendation the Town board has hired an accounting firm to balance all Town books along with bank accounts each month. The accounting firm's reports are then reviewed by the Town board on a monthly basis and audited at year end by the Board. This has been implemented and will continue throughout the year.

The Town Board of the Town of German Flatts agrees with the Office of the State Comptroller regarding these recommendations.

The Town Board appreciates the help and guidance that we received through the entire audit. We found the auditors extremely helpful in explaining their findings which has been helpful to the Town. Implementing these changes will not only make our jobs easier but put us on a more sound financial foundation.

Sincerely,

Town of German Flatts

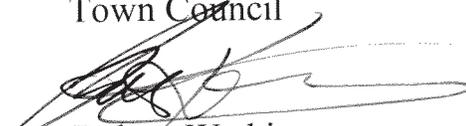

Frank P. Spatto
Supervisor


Andrew Dutcher
Superintendent of Highways


Fay Davis
Town Council


Fred Markwardt
Town Council


Sam Geloso
Town Council


Robert Watkins
Town Council

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

During this audit, we examined the Board oversight of wages and salaries, taxpayer equity, and the annual audit process for the period January 1, 2010 to September 30, 2011. To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We reviewed wages and salaries for January 2010 through September 2011 to determine if payments were Board authorized. We tested the gross pay for one employee to determine the reliability of the payroll reports and the W-2's.
- We reviewed two months (January 2011 and June 2011) of abstracts to determine if purchases were recorded in the proper funds to maintain taxpayer equity. We selected two months in the current year and we alternated seasons.
- We interviewed the Towns' Bookkeeper and independent accountant to obtain an understanding of how Highway employees' payroll costs were allocated among different funds and accounts. We reviewed the general ledger for highway payroll charges from January 2010 through September 2011.
- We interviewed the Supervisor to gain an understanding of the Board's procedures for annually auditing the financial records and reports of officers and employees who receive or disburse moneys.
- We reviewed Board minutes for documentation of annual audits.

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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