



# Town of Homer

## Non-Payroll Disbursements

### Report of Examination

Period Covered:

January 1, 2011 — April 5, 2012

2012M-85



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

July 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 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 Homer, entitled Non-Payroll Disbursements. 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 Homer (Town) is located in Cortland County (County). The Town has approximately 6,400 residents and provides various services, including road maintenance, snow removal, and general government support. The Town's annual budget for the 2012 fiscal year is over \$1.6 million, financed primarily by sales tax distributed by the County, real property taxes, and State aid.

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 Supervisor appointed the Town Clerk to act as his bookkeeper, and she is responsible for maintaining the Supervisor's accounting records, producing various financial reports, making non-payroll disbursements, and other duties.

## Objective

The objective of our audit was to examine financial information to ensure that only Board-approved non-payroll disbursements were made. Our audit addressed the following related question:

- Did the Board and Supervisor ensure that only Board-approved non-payroll disbursements were made?

## Scope and Methodology

We examined various Town accounting records as they related to non-payroll disbursements for the period January 1, 2011 to April 5, 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 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 findings and recommendations and indicated they planned to initiate 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 Board to make this plan available for public review in the Town Clerk's office.

## Non-Payroll Disbursements

The Board is responsible for the general management and control of the Town's finances and operations, and protection of Town assets. The Town Clerk is legally responsible for authorizing and directing the Supervisor to pay claims that have been audited and approved by the Board. The Supervisor is responsible for the Town's day-to-day financial activities. This includes ensuring that only approved non-payroll disbursements are made and recorded in the accounting records. When the Supervisor assigns these duties to an appointed bookkeeper, the Supervisor is responsible for ensuring that no issues of incompatibility exist regarding his choice of bookkeeper and for providing adequate oversight over the duties performed by his bookkeeper. The Board has additional oversight responsibilities by auditing the Supervisor's records on an annual basis.

The Board and Supervisor have not ensured that the Board approved all non-payroll disbursements. The Board has an effective system to audit and approve claims that are presented for payment; however, there is no system in place to verify that each non-payroll disbursement made was properly presented to and approved by the Board. Furthermore, the Supervisor appointed the Town Clerk to act as his bookkeeper; however, the duties of the Town Clerk are incompatible with the duties of the Supervisor's bookkeeper.

The Town Clerk, while acting as the Supervisor's bookkeeper, performs all aspects of the non-payroll disbursement process. She compiles the claims vouchers and presents them, along with an unaudited abstract, to the Board each month for audit and approval. Once approved, as Town Clerk, she authorizes and directs the Supervisor (and therefore essentially herself) to pay the claims. As the bookkeeper, she prepares all non-payroll disbursement checks and enters them into the accounting records. She also makes all bank transfers, prepares the bank reconciliations and generates all of the Supervisor's reports to the Board. She performs all of these duties with little to no oversight. While the Supervisor manually signs all non-payroll disbursement checks, he does not verify that these disbursements were approved by the Board. Moreover, the Board does not audit the Supervisor's records, even though he has attempted to present the Town's accounting records to the Board for audit.

When all of these duties are performed by one individual, there is a significant risk that errors and irregularities could occur and go undetected. Because of this risk, we reviewed 204 non-payroll check

disbursements totaling \$276,813.<sup>1</sup> We found that they were adequately supported and properly approved by the Board. However, we found that the Town Clerk made four electronic payments totaling \$5,255 during our audit period that were not properly approved by the Board. These four disbursements were for replenishing the Town's postage meter. While it is acceptable to make payment in advance of audit for postage, the Board must pass a resolution authorizing it. The Board did not pass any such resolution. Furthermore, these claims should be audited as soon as possible after payment and included on the next abstract as prepaid amounts. This was not done for the four postage disbursements.

## **Recommendations**

1. The Board should ensure that no one individual has custody of assets, the ability to authorize a transaction, and the responsibility to record and report the transaction.
2. The Supervisor should segregate the duties of his bookkeeper.
3. The Board should audit the Supervisor's financial records on an annual basis.
4. The Town Clerk should not function as the Supervisor's bookkeeper.

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<sup>1</sup> See Appendix B, Audit Methodology and Standards, for details on our sample selection.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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



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state comptrollers letter 7-2-12

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44 Hawley Street  
Binghamton, NY 13901-4417

[REDACTED]

The Town Of Homer has received your Report Of Examination and has found it to be very accurate and informing.

The Town Board will be addressing your recommendations at our July MTG(JULY 11th) and at our August Mtg August 8th.

Regards

*Frederick J. Forbes Sr.*  
FREDERICK J. FORBES SR.

HOMER TOWN SUPERVISOR

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine financial information to ensure that only Board-approved non-payroll disbursements were made. To accomplish the objective of this audit and obtain valid evidence, our audit procedures included the following:

- We conducted in-person interviews with various Town officials and staff members to gain an understanding of the procedures followed when processing non-payroll disbursements and controls over those processes.
- We traced voucher numbers, check numbers, vendor names, check dates, and check amounts from Board-approved claims vouchers to Board minutes, electronically obtained computerized accounting records, canceled check images, and audited abstracts. We selected 100 percent of the general fund and highway fund claims vouchers approved in December 2011 (99 claims vouchers totaling \$161,968) as the sample for this audit test.
- We traced check numbers, check dates, check amounts, and vendor names from non-payroll canceled check images to Board-approved claims vouchers, Board minutes, electronically obtained computerized accounting records, and audited abstracts. We selected 100 percent of the canceled check images listed on the general fund and highway fund February 2012 bank statements (45 canceled check images totaling \$60,295) as the sample for this audit test.
- We traced voucher numbers, check numbers, vendor names, check dates, and check amounts from audited abstracts to Board-approved claims vouchers, Board minutes, canceled check images, and electronically obtained computerized accounting records. We selected 100 percent of the checks listed on the July 2011 general fund and highway fund audited abstracts (44 checks totaling \$49,123) as the sample for this audit test.
- We scanned all bank statements for all bank accounts in our audit period and traced all withdrawals (four withdrawals totaling \$5,255), transfers out and wire payments to either other Town bank accounts or supporting documentation to determine that the withdrawal or wire payment was for Town purposes.
- We scanned the electronically obtained computerized accounting records, searched for any non-payroll checks paid to either the Supervisor or bookkeeper, and traced all such payments (16 checks totaling \$5,428) to a Board-approved claims voucher.

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.

## APPENDIX C

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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Steven J. Hancox, Deputy Comptroller  
Nathaalie N. Carey, Assistant Comptroller

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