



Town of Mamakating

Fiscal Oversight

Report of Examination

Period Covered:

January 1, 2011 — February 2, 2012

2012M-139



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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 Mamakating, entitled Fiscal 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*

Introduction

Background

The Town of Mamakating (Town) is located in Sullivan County, and has a population of 12,085. The Villages of Wurtsboro and Bloomingburg are within the Town's boundaries. The Town is governed by an elected five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four council members. The Board is responsible for overseeing the operations, finances, and overall management of the Town. The Supervisor is the chief fiscal officer and is responsible for maintaining a record of all receipts, expenditures, and account balances, and for providing the Board with timely, accurate, and useful financial information.

The Town provides various services to its residents including general administration, road maintenance, snowplowing, fire protection, and street lighting. The Town's budgeted appropriations for the 2012 fiscal year were approximately \$5.2 million, funded primarily with State aid, real property taxes, and sales tax.

Objective

The objective of our audit was to determine whether the Board ensured that the Supervisor maintained adequate reports and records, receipts received by the Supervisor were properly accounted for and deposited, and disbursements were for proper Town purposes. Our audit addressed the following question:

- Did the Board and Supervisor ensure their fiscal oversight responsibilities were being met?

Scope and Methodology

We examined fiscal oversight operations of the Supervisor's office for the period January 1, 2011 to February 2, 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 recommendations and indicated they have taken or plan to take 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.

Fiscal Oversight

The Board is responsible for the financial well-being of the Town by ensuring that all money due to the Town is collected, recorded, and deposited and that all money disbursed is for proper Town purposes. These responsibilities are met through the establishment of strong fiscal policies and through the oversight of the financial operations pursuant to those policies. The Supervisor is responsible for the day-to-day financial operations and designing internal controls and procedures that meet the expectations set by the Board. Other Town department heads and employees are responsible for following those controls and procedures set by the Supervisor.

The Board and Supervisor did not meet their fiscal oversight responsibilities. Nearly every aspect of the Town's financial operations was weak and highly susceptible to errors and irregularities occurring without detection. As a result, most all of the Town's assets were at significant risk of loss.

- Receipts — The Board and Supervisor cannot be sure that all money paid to the Town is actually recorded and deposited. The Supervisor's secretary receives departmental money and records and deposits those funds. During 2011, the Supervisor's secretary collected¹ more than \$7.3 million.² While she issues receipts to each department for the money they turn over to her, no one compares those receipts to deposits.

We attempted to compare the June 2011 and January 2012 departmental receipts to the bank deposits for the Tax Collector, Planning and Zoning, Town Court, and Town Clerk departments. However, the Town Clerk did not receive receipts from the Supervisor's secretary. We were able to verify that the total amount received from the Town Clerk was deposited into the bank. For the Tax Collector, Planning and Zoning, and Town Court, the receipts matched the bank deposit amounts with no discrepancies.

- Disbursements — The Board and Supervisor cannot be sure that all disbursements are made for proper Town purposes. The Supervisor's account clerk's duties include the ability to

¹ The secretary does not receive moneys for Real Property Tax collection, Town Clerk fees or Building Department fees directly, but receives one check from each of these departments to deposit in the bank for the total amount received for the period.

² The \$7.3 million collected during 2011 included moneys collected by the Town for special districts.

prepare and disburse checks. There were a total of 51 hand-written checks totaling approximately \$28,000 disbursed during our audit period, which, according to the account clerk, are not included on Board-approved abstracts. In addition, the Supervisor's secretary reconciles the cash balances per the accounting records with the amount on deposit in the Town's bank accounts. However, such reconciliation only ensures that all the disbursements are recorded and does not verify the propriety of each disbursement. While the Board approves all the claims it is presented, and the Supervisor (or the Deputy Supervisor in the absence of the Supervisor) signs each check, no one verifies that all checks disbursed were approved by the Board and/or actually signed by the Supervisor. Therefore, due to the lack of control over the sequence of checks, hand-written checks could be written for improper purposes and avoid detection.

We scanned all Town checking account bank statements for June 2011 and January 2012 and traced all canceled check images to Board-approved abstracts. We found four hand-written checks had cleared, none of which were included on a Board-approved abstract. In addition, we scanned all canceled check images included with the bank statements for a three-month period, and found that all were signed by either the Supervisor or the Deputy Supervisor.

- Records and Reports — The Supervisor did not ensure that proper accounting records were maintained and that accurate reports were provided to the Board on a timely basis. While the Town contracts with an accountant to prepare their annual financial report, the Town's accounting records do not support or reflect that financial report. For example, although total cash for all funds recorded in the accounting records as of December 31, 2011 was properly reconciled with the amounts per the Town's bank accounts, these aggregate cash balances, according to the December 31, 2011 trial balance provided to us on May 9, 2012, were \$43,000 higher³ than the amounts reported in the Town's annual financial report. Town officials provided us an updated December 31, 2011 trial balance at our exit discussion on October 24, 2012, but the aggregate cash balances were still \$8,000 higher⁴ than the amounts reported in the Town's annual financial report.

³ The differences relate to the untimely posting of adjustments to journal entries, which are required due to the incorrect accounting records.

⁴ The differences relate to highway reserve account cash balances that were not included as cash in the Town's annual financial report.

Also, the total amounts recorded as owed between funds did not balance in total,⁵ and were nine to 10 times higher than what was reported in the Town's annual financial report. This is mainly due to interfund accounts that were recorded as a negative to their normal balances,⁶ and the amounts were reported as balanced in their annual financial report. Considering that cash and interfund activity are the largest assets and liabilities of the Town's operating funds, the financial position of the Town cannot be known within any reasonable estimate at any time. We reviewed the adjustments by the accountant to correct these errors; however, they were not posted at that time.

Further, while one Board member requests budget to actual reports on a regular basis, and the Supervisor requests the reports occasionally, the Supervisor does not provide the Board reports comparing the actual financial results compared to the budget on a regular basis. For the fiscal year ended December 31, 2011, the Town spent more than \$1,000 over the budgeted amounts for each of 28 expenditure accounts. In total, the Town spent less than what was budgeted. However, since the Board does not receive budget to actual reports regularly, this result is more good fortune than proper monitoring and controlling the Town's spending.

Beyond auditing claims presented, the Supervisor and Board members did not provide any oversight, including an annual audit, of the Town's financial operations. Instead, they relied on the contracted accountant to identify errors and make adjustments to the accounting records prior to preparing their annual financial report. However, the work performed by the accountant does not supplant an annual audit. Additionally, as of the end of our fieldwork in May 2012, the 2011 adjustments prepared by the accountant were not entered into the Town's accounting records.⁷ Thus, Town employees have no guidance and are left to simply rely on their individual judgment.

Since the Town's financial operations are weak, the risk exists that all money due to the Town may not be collected, recorded, and deposited, or that all money will not be disbursed for proper Town

⁵ The sum of all the balances recorded as owed to other funds should equal the total amounts recorded as owed from other funds.

⁶ Assets, such as "Due From Other Funds," should have a normal debit balance. Liabilities, such as "Due To Other Funds," should have a normal credit balance.

⁷ The accountant prepared 37 unfinalized adjustments that totaled over \$6.5 million and impacted 10 of the Town's accounts. In addition, the contracted accountant prepared \$882,995 of Due To/Due From adjustments, and over \$4.3 million of additional year-end adjustments.

purposes. Further, because the records did not reflect the actual financial activities of the Town, any financial reports that may have been generated would likely be inaccurate. This, in turn, significantly increases the risk that the Board would make poor financial decisions that could threaten the fiscal health of the Town.

Recommendations

1. The Board should establish policies relating to internal controls over the Town's financial operations and monitor compliance with the policies and procedures.
2. The Supervisor should segregate duties over financial operations so that no one person has custody of Town assets, records transactions, and reconciles those records.
3. The Supervisor should establish procedures to ensure that all moneys paid to the Town are recorded and deposited.
4. The Board and Supervisor should ensure that all disbursements are for approved Town purposes.
5. The Board should audit, or cause to be audited, the Supervisor's records and reports on an annual basis.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

The Town's response letter refers to an attachment that supports the response letter. Because the Town's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.



2948 State Route 209 • Wurtsboro, NY 12729 • 845-888-3049

Supervisor – Harold K. Baird

November 8, 2012

NYS Office of the State Comptroller

Attention: [REDACTED]

44 Hawley Street

Room 1702

Binghamton, NY 13901-4417

Unit Name: Town of Mamakating

Audit Report Title: Town of Mamakating Fiscal Oversight Report Examination

Audit Report Number: 2012M-139

Dear Sir,

On behalf of the Town Board and the Town of Mamakating, I would like to thank you for the recent report examination and the extension for the Corrective Action Plan Response due to the recent conditions of Hurricane Sandy. Please accept this audit response letter and note that this will also serve as the Corrective Action Plan.

In whole, we agree with what was reported and are always receptive to any recommendations offered to ensure the Town's financial operations. There are however a few exceptions that we would like to address as we would disagree on and ask for clarification.

Exceptions

1. Paragraph regarding Records and Reports : it is noted saying "Town officials provided us an updated December 31, 2011 trial balance at our exit discussion on October 24th, 2012, but the aggregate cash balances were still \$8,000 higher than the amounts reported in the Town's annual financial reporting." The Town Board and accountant for the Town request documentation as to how this balance is off and to please provide a spreadsheet itemizing the calculations and your findings. We feel that this difference is not correct and would like this to be clarified as reconciliations of accounts are done monthly and balances are always justified.

See
Note 1
Page 14

For each recommendation included in the audit report, the following is our corrective action (s) taken or proposed. For recommendations where action has not been taken or proposed, we have included the following explanations.

Audit Recommendation:

1. The Board should establish policies relating to internal controls over the Town's financial operations and monitor compliance with the policies and procedures

TOM Implementation Plan of Action(s) for #1:

The Board and Town Supervisor's primary concern is to comply with and follow guidelines recommended by the State Comptroller regarding the internal controls over the Town's financial operations. We have implemented procedures that will ensure this compliance going forward by incorporating all reporting and correspondence onto each Agenda for Town Board meetings. The Board will have copies of the Statement of Expenditures, Encumbrances, & Appropriations which includes the budget amounts for the year, month to date and year to date totals. In addition, copies of manual checks, and deposit logs will be provided to ensure communication and review regularly. The Board will motion for acceptance of reviewed items and it will be recorded in the minutes of each Board meeting and copies will be retained in the Town Clerk's office.

Implementation Date: 11/9/12 Date of submission

Person Responsible for Implementation:

Supervisor Harold Baird

Audit Recommendation:

2. The Supervisor should segregate duties over financial operations so that no one person has custody of Town assets, records. Transactions, and reconciles those records.

TOM Implementation Plan of Action(s) for #2:

Each department with the Town of Mamakating Town Hall collects payment which is received and recorded. Each board member is assigned as a liaison to the departments and will be overseeing the receipts and reconciling of each department on a monthly basis. Certain departments submit payment to the Supervisor's office with a transmittal of monies received. They are provided with a written receipt that is numbered and have been instructed to retain the original receipts for their records. Liaisons for each department will be verifying that these receipts are recorded accordingly. The Town retains an accountant that prepares the annual financial report in addition to receiving the monthly reconciliations of all bank accounts.

Implementation Date: 11/9/12 Date of submission

Person Responsible for Implementation:

Supervisor Harold Baird

Audit Recommendation:

3. The Supervisor should establish procedures to ensure that all moneys paid to the Town are recorded and deposited.

TOM Implementation Plan of Action(s) #3:

All monies paid to the Town of Mamakating have been recorded in a receipt book which is dated and numbered. Each department that submits receipts to be deposited are issued a receipt of remittance and Department heads have been instructed to retain the receipt for their records. Receipt numbers are also being noted on paperwork submitted in addition to the Deposit Log to cross reference. Please see attached letter from the Tax Receiver Janet Evans in response to this report.

In addition, reconciliations of all accounts will be reviewed and signed off by the Supervisor or Deputy Supervisor on a monthly basis to ensure processes are being followed and all accounts are reconciled properly.

Implementation Date: 11/9/12 Date of submission

Person Responsible for Implementation:

Supervisor Harold Baird

Audit Recommendation:

4. The Board and Supervisor should ensure all disbursements are for approved Town purposes.

TOM Implementation Plan of Action(s) #4:

Vouchers are filled out that support expenditures for each department and are submitted to Board members that are the appointed liaisons to each department for approval. This ensures the Board of all expenditures within each department, in addition to confirm that the expenses are for Town purposes. The Town Board and Supervisor are issued an abstract that itemizes each expenditure for approval of payment prior to each Town Board Meeting. Any questions are addressed to the Account Clerk and the Abstract is then voted on for approval at the Town Board meeting and recorded by the Town Clerk in the minutes and abstracts are then filed with the Town Clerk for record keeping. The Town Board Meetings are held twice a month on the first and third Tuesday of each month. There are times where invoices are due upon receipt and in other cases there are security deposits that need to be refunded after a park rental was used. Any manual check that is written is signed by the Supervisor or by the Deputy Supervisor in his absence. Copies of all checks are now being copied and backup paperwork is supplied to each board member and reviewed and approved at board meetings along with the abstract.

Implementation Date: 11/9/12 Date of submission

Person Responsible for Implementation:

Supervisor Harold Baird

Audit Recommendation:

5. The Board should audit, or cause to be audited, the Supervisor's records and reports on an annual basis.

TOM Implementation Plan of Action(s) #5:

The Board will be discussing options for auditing the Supervisor records and reports on an annual basis and discuss the option of outsourcing this to ensure policies and procedures are

being followed and are handled in a timely and accurate fashion. This discussion will take place at a Town Board meeting at a Work Session and communicate the decision to the State Comptroller when finalized.

Implementation Date: 11/9/12 Date of submission

Person Responsible for Implementation:

Deputy Supervisor Regina Saunders

Signed:

Harold K. Baird
Supervisor

11-8-12

Date

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

We provided Town officials with a spreadsheet comparing the aggregate cash balances from the December 31, 2011 trial balance provided to us on October 24, 2012, to the amounts reported in the Town's annual financial report, which indicates a difference of approximately \$8,000.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

We assessed the financial operations of the Supervisor for the period January 1, 2011 through February 2, 2012. To accomplish our audit objective and obtain valid and relevant audit evidence, we performed the following procedures:

- We interviewed Town officials and reviewed Board minutes, relevant financial records, and available reports such as the annual financial report.
- We reviewed budget to actual reports for 2011 and compared adopted budget line items against actual spending reports to determine if the Town was overspending on budget line items.
- We selected a sample of 10 accounts over \$10,000 from the trial balance report and traced them to their corresponding accounting records to determine if the trial balance reports were recorded accurately.
- We reviewed the annual financial report, interfund transfers, and adjusting entries from the contracted accountant and compared them to the Town's accounting records to determine the accuracy of the records.
- We scanned all bank reconciliations for our audit scope and reviewed the one with the highest outstanding check dollar amounts and the two with the highest deposits in transit, and traced them to their source documents to ensure the transactions were appropriate and supported.
- We reviewed 20 transactions of journal voucher activity with credits to cash accounts and traced them to their supporting documentation.
- We compared canceled check images from bank statements and traced them to the Board-approved abstracts, the general ledger check registers, and the vouchers with attached backup documents to ensure payments were appropriate, properly approved, and matched accounting records.
- We reviewed canceled check images for unusual signatures or payments and traced them to their supporting documentation to ensure the payments were for legitimate Town purposes and were properly approved.
- We reviewed the 2011 receipt reports to determine the amount of cash receipts collected for 2011 and traced a sample of June 2011 and January 2012 receipts to departmental source documents. We then traced them to the corresponding bank deposit receipts, bank statements, revenue accounts, and the cash receipt journal in the financial software.
- We scanned all bank statements for a month in 2011 and a month in 2012 and traced canceled checks to Board-approved abstracts.

- We reviewed a sample of vouchers from each department to ensure that they were properly approved.
- We traced electronic bank transfers to their corresponding bank deposits.
- We reviewed bank statements for gaps in checks and determined if the missing checks were properly accounted for.

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 D

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