



Town of Morehouse

Records and Reports

Report of Examination

Period Covered:

January 1, 2010 — January 25, 2012

2012M-75



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

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 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 Morehouse, entitled Records and Reports. 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 Morehouse is located in Hamilton County in the Adirondack Mountains of New York State and had 86 residents as of the 2010 Federal census. The Town provides various services to its residents including road maintenance, snow plowing, public health and safety, and recreation. These services are financed mainly by real property taxes and State aid. The Town's 2012 adopted budget totaled \$788,400.

The Town Supervisor (Supervisor) serves as Chief Financial Officer and is responsible for keeping an accurate and complete accounting of all Town funds received and disbursed. The Supervisor also is required to file annual financial reports detailing the Town's financial activity. The Town Board (Board) is responsible for overseeing the Town's financial operations and establishing effective policies and procedures that govern Town transactions.

Objective

The objective of our audit was to review the Town's records and reports. Our audit addressed the following related question:

- Does the Town Supervisor, as Chief Financial Officer, maintain accurate, timely financial records and reports for the Town?

Scope and Methodology

We examined the Town's accounting records and reports maintained by the Town Supervisor for the period January 1, 2010 to January 25, 2012. We expanded our scope back to January 1, 2008 to determine if annual financial reports were filed with the New York State Office of the State Comptroller, as required.

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 plan 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.

Inadequate Financial Records and Reports

The Board is responsible for the Town's overall financial management. As Chief Financial Officer, the Supervisor is responsible for maintaining adequate accounting records that consist of journals, ledgers, and other financial documents that provide an accurate accounting of all financial transactions. He must ensure that these records are reliable and maintained in a timely manner. Also, the Supervisor is responsible for providing the Board with comprehensive monthly reports that include accurate financial information for each of the funds and districts. The lack of adequate and timely accounting records makes it difficult for the Board to manage the Town's operations. It also increases the risk that errors and irregularities could occur and remain undetected.

The Board did not provide adequate oversight of the Town's finances. Further, the Supervisor has not maintained revenue accounts in the accounting software, reconciled the bank statement balances of cash to the general ledger cash accounts, filed monthly or annual reports with the Board, and has not filed required annual update documents with the Office of the State Comptroller (OSC) for the last four years. These deficiencies diminish the Board's ability to adequately monitor and manage Town activities and finances.

Board Oversight

The Board must require that the Supervisor provide it with a monthly detailed statement of all moneys received and disbursed, and an annual accounting of all moneys received and disbursed by January 20 of the following year. The Board also must receive budget to actual revenue and expenditure reports monthly and use these reports to monitor the budget.

We found that the Board does not receive monthly reports of receipts and disbursements or budget to actual revenue and expenditure reports from the Supervisor. Instead, the Board relies on the Supervisor to monitor the budget and bring to its attention what, if any, budget transfers need to be made and the amount of these transfers. The Board also does not receive an annual statement of all moneys received and disbursed. These deficiencies occurred primarily because the Board has not developed or adopted adequate policies and procedures to require that appropriate accounting records are maintained or necessary reports are provided.

Although the Board meeting minutes indicated that the Board would audit all Town officials' books at the February meeting, there was no indication that the Board completed an annual audit during 2010

or 2011, as required by Town Law. Further, there was no indication that the Board performed quarterly audits, as it stated it would do in response to the findings and recommendations in our previous audit report.¹

We recognize that there is a limited number of staff to assist in the Town's financial operations. For example, the Supervisor has no bookkeeper or secretary and is responsible for all aspects of the accounting functions, including bank reconciliations. The only other individual who assists in the accounting functions is the Town Clerk, who inputs the disbursements into the accounting software and prints the monthly abstracts.² To compensate for the lack of segregation of duties, the Board should provide more oversight such as periodic reviews of bank reconciliations and cancelled checks.

We stated in our previous report that the Board's lack of oversight when one individual - the Supervisor - controls all aspects of the accounting function creates an environment where errors or irregularities could occur and remain undetected and uncorrected. We again stress the importance of the Board's oversight and creation of compensating controls.

Accounting Records

The Supervisor, as Chief Financial Officer, is responsible for maintaining general ledgers, cash receipt and disbursement journals, and subsidiary revenue and appropriation ledgers in a complete, accurate, and timely manner. The general ledger is a detailed accounting for assets, liabilities and equity (fund balance) accounts as well as revenue, expenditure and budgetary control accounts. At the end of each fiscal year, revenues and expenditures should be closed to fund balance, so that at the beginning of each year revenues and expenditures start at zero again. The general ledger accounts for assets, liabilities and fund balance help substantiate the Town's financial condition at a given point in time. It also is important that the Supervisor perform monthly bank-to-book reconciliations of cash. Any differences must be promptly documented and resolved to ensure that financial activities are accounted for in a proper and timely manner.

We found that the Town's accounting records were in poor condition because the Supervisor did not maintain them in a complete, accurate, and up-to-date manner. The records neither provided an accurate portrait of the Town's financial condition at any time, nor accurately stated the fund balances. The Supervisor did not maintain any records

¹ *Town of Morehouse Internal Controls Over Cash Receipts and Disbursements*, 2005M-67, December 2005

² Since August 2011, the Town Clerk also has assisted the Supervisor by inputting receipts into the accounting software.

for Town revenues,³ and did not close the accounting records at the end of the fiscal year.

Although the Supervisor reconciled the bank statement balance to the balance recorded in the Town's checking and savings accounts, he did not reconcile these amounts to the general ledger cash accounts. We reviewed the cash balances and found that, as of December 31, 2011, the general fund had \$180,828, the highway fund had \$124,608, and the trust and agency account had \$56,148 more in the bank than what was recorded in the general ledger. We also calculated a highway fund cash balance of \$170,826, while the actual checking and savings accounts showed a balance of \$175,548, a difference of \$4,722 more in the bank than calculated using the results of operations.

If the Supervisor had properly performed bank reconciliations, these types of variances would have been a red flag requiring further review to ensure that cash had been properly safeguarded. As stated earlier, the Supervisor's failure to record opening and closing entries and the revenues in the accounting software precludes a proper reconciliation of the general ledger cash accounts to the actual cash in the bank. Further, without timely and accurate bank reconciliations, Town officials lack reasonable assurance that the accounting records are correct and that Town funds are properly accounted for.

Because of the poor state of the Town's financial records, it is not possible for the Supervisor to provide an accurate picture of the Town's financial condition to the Board at any time. According to the Supervisor, he has become more involved in regional issues, which precludes him from having sufficient time to devote to financial accounting for the Town. While we recognize that the Supervisor may have involvement with other issues, similar to most officials at any local government, this does not absolve him of his duties, as the Town's Chief Financial Officer, to maintain complete, accurate and timely records.

Financial Reports

The Supervisor is required to file the Town's annual update document (AUD) with OSC on an annual basis. In addition, the Supervisor must provide periodic financial reports to the Board including monthly detailed statements of all moneys received and disbursed, and an annual report of receipts and disbursements. Good internal controls also require that the Board receive budget to actual revenue and expenditure reports monthly and use these reports to monitor the budget.

³The Supervisor, assisted by the Town Clerk, began recording revenues in August 2011.

Annual AUD Filing — Local governments are required by law to annually complete and file with OSC an AUD, which is a detailed report of all financial activity for the preceding year. The Supervisor is required to complete and submit the AUD within 60 days following the close of the fiscal year, with the option of an additional 60-day extension, if requested. While it is the Supervisor's responsibility to complete and file this report, the Board should have procedures to ensure that the Supervisor completes and submits it to OSC by the deadline. The AUD is an important document that allows the Board and the general public to assess the Town's financial operations and financial condition.

As of February 24, 2012, the Supervisor has not filed the Town's AUD with OSC as required for the fiscal years ended December 31, 2008, 2009 or 2010. The 2007 report was not submitted until September 2011, which was more than three years past the filing deadline. The Supervisor stated the primary reason for not filing was due to the poor condition of the records he maintained and a lack of time. The absence of the AUDs impairs the Board's and Town residents' ability to monitor the Town's operations and financial condition. As such, the Board's ability to make informed decisions and manage Town operations is impaired.

Interim Reporting — Town Law requires the Supervisor to submit a report to the Board at the end of each month that accounts for all moneys received and disbursed during the month. It is important that these reports include detailed monthly and year-to-date budget and actual comparisons, fund balance amounts, and reconciled cash balances for each fund and special district. Complete and accurate monthly reports provide essential financial information, which the Board can use to monitor the Town's financial condition.

The Supervisor did not provide the Board with sufficient or required periodic financial reports. While the Supervisor had sporadically provided monthly reports of moneys received and disbursed during 2010 and 2011, the Board did not receive the reports monthly, as required, and did not receive any budget to actual revenue and expenditure information. The Board also did not receive the required annual report of receipts and disbursements. Because the Board did not receive the required financial reports, it could not adequately monitor the Town's financial affairs. Had it received these reports, it would have been better informed about the unreconciled balances between the bank and accounting records and the overall deficiencies in the accounting records.

The lack of reporting compromises the transparency of Town operations to the public. The lack of interim reporting to the Board

results in the Board being unable to evaluate the Town's fiscal activities and financial condition, and take timely corrective action, if needed.

Recommendations

1. The Board should implement fiscal policies to ensure that the Town's accounting records, as maintained by the Supervisor, are complete, accurate and up-to-date.
2. The Board should require that the Supervisor provide monthly financial reports that include a listing of all moneys received and disbursed, budget-to-actual comparisons, fund balance amounts, and reconciled cash balances for each fund. The Board should use these monthly reports to monitor actual results against the adopted budget, and provide oversight of the Town's financial operations and the accuracy of its records.
3. The Board should audit the Supervisor's records and reports annually by January 20 of the following year, or engage the services of a certified public accountant or public accountant to conduct the audit.
4. The Supervisor should ensure that adequate accounting records are maintained, all revenues are properly posted to the accounting system, and opening and closing journal entries are made each year.
5. The Supervisor should perform complete and accurate monthly bank reconciliations. The Board should review these reconciliations each month and ensure that any discrepancies are investigated and corrected immediately.
6. The Supervisor should ensure that the Town's annual financial reports are prepared and filed in a timely manner with the Office of the State Comptroller, as required.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Town of Morehouse

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RE: 2012M-075

The referenced Report, we believe is factually correct, so it is important to start by stating that fact.

The Report makes an effort to put in context, the issues, by discussing work load and level of staffing (or lack thereof). The fact that the report does that, is appreciated.

The Town doesn't not wish to dispute the Report, only to offer some an explanation.

Therefore the content of the Response will only offer some additional details:

- The 2007 AUD was late, was filed manually, but was mailed prior to the 2011 date when the Auditor received a copy from the Town file. We understand that there was no record of its receipt, and that multiple requests had been made, to bring the overall AUD process up to date.
- Absent the 2007 data being on the State system, the 2008 report and others must be filed manually
- The Auditor worked out, with the Town a preliminary plan to catch up the back reports, prior to this audit. Unfortunately that plan proved unworkable, due to the need for prior year data.
- The identified difference of \$4722, speaks to this need to have the numbers follow year to year, and the mistake is corrected.
- The report data is now all being submitted as part of this response (via US mail).
- There was a period between manual monthly reporting and automated monthly reporting, where monthly reports were not submitted by the Supervisor. Conversely, data was always available to the Board for decision making, including year to date data for transfers, budgeting, and capital planning.

- Computerized Monthly reports from the accounting software, were implemented in 2011
- The Morehouse Town Board, in every year other than 2011, for the 2010 fiscal year, does an annual review of the records of the Town Clerk, the Town Justice, and the Supervisor. There were a series of dramatic personal issue related to the Town Justice and the Town Clerk positions, which lead to this fact. It is understood, that this is not an appropriate excuse, however it hopefully clarifies that this is an exception to the Board process, not common practice.
- The Town Board provided the annual review of the Town Clerk, the Town Justice, and the Supervisor's 2011 records at the February 2012, Town Board meeting. It is acknowledged that this is not by January 20th, and this process will be modified for the next review.

The key to this response is to acknowledge that the need for updates and modification of shortcomings falls squarely on the shoulders of the Supervisor. While the Supervisor may have a full plate, and may have worked to help fill the local need, through several serious issues which were faced by other Town Officials, the problems of this Report must be addressed. Having some of the aspects of the Supervisor's responsibilities left incomplete is not acceptable. It is incumbent on the Supervisor to provide the necessary leadership and commitment to fulfill these responsibilities. In that vein, the plan of correction offered, at the time of the last audit, was not a plan which could succeed. It was a plan which failed to recognize the current capacity of Board Members, the Supervisor, and the staff at the time it was submitted. This is not an excuse, for not implementing the prior plan of correction; it is simply the acknowledgment that it was a bad plan. It is therefore important to acknowledge that fact, and provide a more realistic plan of correction for the findings of this Report.

The above is submitted on behalf of the Town of Morehouse.

By:



William G. Farber

Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the Town's records and reports. To accomplish this, we performed an initial assessment of the condition of the Town's accounting records and reports so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents such as Town policies and procedures, Board minutes, and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected for further testing the records and reports maintained by the Supervisor.

During this audit, we examined the Town's records and reports for the period January 1, 2010 to January 25, 2012. We expanded our verification of AUDs filed with OSC back to January 1, 2008.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed the Town Supervisor and Town Clerk, who are responsible for maintaining accounting records, and reviewed Board minutes to obtain an understanding of the Town's policies and procedures.
- We reviewed the Supervisor's management of the Town's financial information and, on a test basis, reviewed the available accounting records including the general ledger, bank reconciliations and adopted budgets for the years 2009, 2010, 2011 and 2012.
- We assessed the financial information provided to the Board and the Board's procedures to provide oversight of Town finances.
- We interviewed the Supervisor and OSC staff to determine if the annual financial reports were completed and filed on a timely basis.

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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