



# Town of New Haven

## Internal Controls Over Selected Town Operations

Report of Examination

Period Covered:

January 1, 2010 — May 31, 2011

2012M-49



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**

June 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 Town of New Haven entitled Internal Controls Over Selected Town 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*



# State of New York Office of the State Comptroller

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## EXECUTIVE SUMMARY

The Town of New Haven is located in Oswego County and has a population of approximately 2,860. The Town Board (Board) is responsible for the general management and control of the Town's financial affairs and the Town Supervisor serves as the chief fiscal officer.

The Town provides various services to its residents including street maintenance, snow plowing, general government, fire protection service and a Justice Court. The Town budgeted \$2.44 million for general, highway and special district expenditures in 2011. These expenditures are funded primarily with revenues from real property taxes, sales taxes, State aid and departmental revenues.

### **Scope and Objective**

The objective of our audit was to assess the Board's system of internal controls over selected Town operations for the period January 1, 2010 through May 31, 2011. We expanded our scope back to January 1, 2009 and forward to December 31, 2011 for financial condition analysis and to assess the annual audit. Our audit addressed the following related questions:

- Are the Town's financial and budgetary reporting procedures adequate for purposes of properly monitoring the Town's finances and its overall financial condition?
- Are internal controls over cash receipts and disbursements designed and operating effectively to adequately safeguard Town assets?
- Did the Board perform an adequate audit of claims?
- Are Town officials adequately controlling the purchase and use of their diesel fuel inventory?
- Are the Justices performing monthly bank account reconciliations and accountability analyses and are they depositing receipts in a timely manner?

### **Audit Results**

During our audit period, the Board did not properly oversee the Town's financial operations. The Board did not receive or require interim budget to actual reports from the Supervisor to monitor the Town's financial operations or for use in the preparation of the budget as required.<sup>1</sup> Also, the Board

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<sup>1</sup> The current administration began receiving interim budget reports in April 2011, one month prior to the end of our audit period.

adopted similar budgets from year to year without making sufficient adjustments based on historical data. Although the Town ultimately ended 2011 with a reasonable fund balance in both the general and highway funds, this does not diminish the importance of using historical information to develop realistic budget estimates and to monitor the budget throughout the year. In addition, the Board did not audit or cause to be audited the records of all the departments receiving and disbursing cash. This diminishes the Board's ability to effectively monitor the Town's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected. Furthermore, the Board failed to properly monitor the inter-municipal agreement with the Town of Scriba for the repairs and maintenance fund for Water District #3, or require that the Town of Scriba maintain separate records for the three operational water districts. As a result, it is impossible for either Scriba or New Haven officials to determine the financial positions of each water district and it could result in one district's cash incorrectly being used to finance another district's operations.

We identified internal control weaknesses in the bookkeeper's duties and the Supervisor's use of a rubber stamp to sign checks. The bookkeeper receives cash and checks, makes deposits, prepares and posts journal entries with limited oversight, writes checks, receives the canceled checks from the bank and reconciles bank accounts. In addition, the Supervisor used a rubber stamp to sign checks which was locked in the bookkeeper's office.<sup>2</sup> These weaknesses could lead to inappropriate transactions being initiated and paid without detection by Town officials.

The Town's claims auditing process does not ensure that taxpayer funds are properly safeguarded and used only for authorized purposes. We found deficiencies including payment of claims prior to audit, lack of adequate support to demonstrate the payments were proper, lack of signatures acknowledging the receipt of goods and services and an improper payment to the New Haven senior citizens group of \$2,500. The Board's failure to deliberately and thoroughly audit claims, along with the bookkeeper paying claims before audit and the failure of the Town Clerk to authorize the Supervisor to pay claims increases the risk that unauthorized disbursements for inappropriate purchases could be made and not detected.

Town officials did not maintain an inventory record for diesel fuel, reconcile usage logs to physical inventory levels or procure diesel fuel through a competitive process. As a result, the Town lacks assurance that diesel fuel is used only for Town vehicles and that it is procured in the most cost effective manner.

The Justices did not prepare bank reconciliations or accountability reconciliations of Court assets to known liabilities nor were moneys deposited in a timely manner. As a result, the Justices had a combined total of \$1,233 of unidentified bail money on hand as of May 31, 2011. We also found the Justices did not make bank deposits timely. By failing to deposit within 72 hours, the Justices are increasing the risk that the Court moneys could be lost or stolen.

### **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. In their response, Town officials addressed only those findings and recommendations they did not agree with;

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<sup>2</sup> The Supervisor told us that he removed the rubber stamp from the bookkeeper's office and the stamp is now stored at his home. He stated that he now manually signs all checks.

Town officials did not indicate whether they would implement the recommendations we made to correct the remaining findings in our report. Appendix B includes our comments on the issues raised in the Town's response letter.

# Introduction

## Background

The Town of New Haven is located in Oswego County and has a population of approximately 2,860. The Town provides various services to its residents including street maintenance, snow plowing, general government support, fire protection service, and a Justice Court.

The Town Board (Board) is composed of five elected members including the Town Supervisor (Supervisor),<sup>3</sup> who serves as the chief fiscal officer (CFO). As CFO, the Supervisor is responsible for the receipt, disbursement and custody of Town moneys, signing Town checks and providing financial reports to the Board. The Board is responsible for overseeing the Town's fiscal matters including monitoring the budget and annually auditing the departments that receive and disburse cash. The Town's budgeted appropriations for 2011 fiscal year were approximately \$966,000 in the general fund, \$1.13 million in the highway fund, and \$344,000 in special district funds. These expenditures are funded primarily with revenues from real property taxes, sales taxes, State aid and departmental revenues.

## Objective

The objective of our audit was to assess the Board's system of internal controls over selected Town operations. Our audit addressed the following related questions:

- Are the Town's financial and budgetary reporting procedures adequate for purposes of properly monitoring the Town's finances and its overall financial condition?
- Are internal controls over cash receipts and disbursements designed and operating effectively to adequately safeguard Town assets?
- Did the Board perform an adequate audit of claims?
- Are Town officials adequately controlling the purchase and use of their diesel fuel inventory?
- Are the Justices performing monthly bank account reconciliations and accountability analyses and are they depositing receipts in a timely manner?

<sup>3</sup> The Town experienced a change in Supervisors in August 2010. The former Supervisor resigned her position, which she had held for just eight months. An interim Supervisor was appointed by the Board for the last four months of 2010 and the current Supervisor was elected to his term beginning January 1, 2011.

**Scope and  
Methodology**

We examined the Town’s financial operations for the period January 1, 2010 to May 31, 2011. We expanded our scope back to January 1, 2009 and forward to December 31, 2011 for financial condition analysis and to assess the annual audit.

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. In their response, Town officials addressed only those findings and recommendations they did not agree with; Town officials did not indicate whether they would implement the recommendations we made to correct the remaining findings in our report. Appendix B includes our comments on the issues 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 Town Board to make this plan available for public review in the Town Clerk’s office.

## Financial Management

The Board is responsible for the oversight of the Town's financial operations and making sure that policies and procedures are in place to safeguard the Town's financial resources. The Board fulfills this responsibility in part by instituting and monitoring appropriate internal controls over Town and special district operations to ensure that financial transactions are properly authorized, recorded, and reported. This oversight responsibility requires continued diligence. Governing Board members should compare actual results to plans, policies and directives. In addition, Town Law requires that the Board audit, or cause to be audited, the records and reports of each department receiving and disbursing cash.

During our audit period, the Board did not properly oversee the Town's financial operations. The Board did not receive or require interim budget to actual reports from the Supervisor to monitor the Town's financial operations or for use in the preparation of the budget as required. Also, the Board adopted similar budgets from year to year without sufficient adjustments based on historical data. In addition, the Board did not audit or cause to be audited the records of all the departments receiving and disbursing cash. Furthermore, the Board failed to properly monitor the inter-municipal agreement with the Town of Scriba for the repairs and maintenance fund for Water District #3, or require that the Town of Scriba maintain separate records for the three operational water districts.

### **Budget to Actual Reports**

The Board needs certain financial reports for effective monitoring, such as periodic budget to actual reports. In order for the Board to follow proper budgetary procedures, it needs these reports to closely monitor the progress of actual revenues and expenditures throughout the year, and identify any variances that might cause the Town to end the year with a significant surplus or deficit. Generally, corrective action is easier to initiate when the need is identified early.

The Board's ability to carry out its fiduciary responsibilities was severely limited because it did not request or require the Supervisor to provide interim budget reports.<sup>4</sup> Such reports should show the original budget, any authorized amendments, actual transactions to date (revenues, expenditures and encumbrances listed by account code) and the variances between the amended budget and actual expenditures. Budget reports should be prepared and reviewed as of

<sup>4</sup> The current administration began receiving interim budget reports in April 2011, one month prior to the end of our audit period.

the end of each month during the fiscal year. While the Supervisor provided the Board with a general statement of cash position for each fund, the total amount of revenues per fund, and the total amount of expenditures per fund, these reports were not sufficient to monitor the budget in detail, because they do not show the individual revenue and expenditure accounts. When the Board is provided with detailed budget to actual reports, it is better able to identify whether its initial projections were on target and assess if financial trouble might occur. It also helps the Board to identify any budget modifications that may be necessary throughout the year and to ensure that sufficient appropriations exist to cover the claims against the Town.

## **Budget Format**

The budget document details the Town's financial plan and should be developed using the most current and accurate information available. The form and content of the budget should provide the Board with the information needed to determine if budget estimates are reasonable. For example, the proposed budget should contain comparative information showing actual revenues and expenditures for the last completed fiscal year, and appropriations and estimated revenues for the current fiscal year to date.

Town officials used an incomplete format for preparing the Town's budget. The format of the budget only includes the previous year's and current year's adopted budget figures. It does not include prior year actual results or the current year's modified budget. As a result, the Board and public did not have this information when evaluating the reasonableness of budget estimates.

In addition, Town officials inappropriately placed a contingency appropriation account in the highway fund budgets in both 2010 and 2011. A contingency account is used to offset the possibility of some unexpected occurrence. Town officials may include a contingency appropriation only in the general fund budget for an amount not to exceed 10 percent of the total budget excluding appropriations for debt service, judgments, estimates for special district purposes, and estimates for highway repairs and improvements. The Highway Fund included a contingency appropriation of \$85,000 in 2010 and another \$50,000 in 2011. The Supervisor told us he was unaware of the legal restrictions on the contingency appropriation.

The Board has also adopted similar budgets from year to year without making sufficient adjustments based on historical data. In 2010, this resulted in overestimated expenditures in the general fund of \$117,474 (or 21 percent), and \$150,451 (or 17 percent) in the highway fund. These overestimated expenditures contributed to operating surpluses in 2010 and therefore, an increase of fund balance. The Board did appropriate a significant amount of available fund balance (\$409,500

for the general fund and \$269,000 for the highway fund) in 2011 and the Town ultimately ended 2011 with a reasonable fund balance in both the general and highway funds. Although the Town is currently in good financial condition, this does not diminish the importance of using historical information to develop realistic budget estimates.

## **Water District Operations**

The Town has inter-municipal water service agreements with the Town of Scriba (Scriba) for the operation and maintenance of its three water districts.<sup>5</sup> These agreements outline the respective responsibilities of each town. Each agreement explains that Scriba assumes responsibility for the daily operation of each district, and that all rents, charges and other revenues collected from the customers are the property of Scriba. However, the Town of New Haven retains ownership of the systems. New Haven is solely responsible for any unpaid indebtedness and for upgrades necessary to comply with any Federal, State or County law, rule or regulation. New Haven's records for each water district show the debt payments and the cash balances available to pay the debt. The Town of Scriba maintains all other revenue and expenditure records for the districts.

The Board did not establish procedures to properly monitor the water service agreement with Scriba and it did not require Scriba to maintain separate accounting records for each district (including a maintenance and repair fund specifically required for Water District #3), nor did it require periodic reports showing the cash balance or financial position of each district.

According to the inter-municipal agreement, Scriba must maintain necessary records relating to the operation of the New Haven water system and provide reports to New Haven as necessary. A necessary element of any accounting system for special districts is that separate records be maintained for each district to preserve rate-payer equity. The agreement for Water District # 3 further specifies that Scriba must establish an account for the deposit of fees collected for New Haven from Water District #3 users to accumulate moneys for maintenance and repairs.<sup>6</sup> It also provided that Scriba should notify New Haven annually of the account status. However, the Board has never requested the balance of this fund or information regarding the other water districts from Scriba and officials in Scriba told us that they had not established a separate account for this purpose. In fact, all three of New Haven's water districts were considered an extension of one of Scriba's water districts, and all of the revenues and expenditures

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<sup>5</sup> The Town has four water districts. Water District #4 was not operational at the time of our audit; it was under construction.

<sup>6</sup> The agreement states that New Haven will pay Scriba for additional services which include capital repairs or replacements to the water system when the costs of the repairs during one calendar year exceed \$2,500 in the aggregate.

are commingled for the New Haven districts with one of Scriba's water districts. As a result, there is no separate record of the operating revenues (water rents), expenditures, and fund balance for each of New Haven's water districts. The lack of separate records for each water district makes it impossible for both Scriba and New Haven officials to determine the financial position of each water district and could result in one district's cash incorrectly being used to finance another district's operations.

## **Annual Audit**

Town Law requires that town boards 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 the cash accountability must include the 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 annual audits of the records and reports of all the officers and employees who received or disbursed cash in 2009 or 2010. We found no documentation or evidence in the Board minutes that an audit had taken place. The Town Clerk told us she provided her 2009 records to the Board to give to the independent accountants, but there is no evidence that an audit was completed. No report was given back to the Town Clerk. Likewise, the Justices did submit their records to the Board in 2009, purportedly for an audit, but there is no evidence that an audit was completed. In 2010, the Town Clerk told us that no one requested that she submit her records to the Board for audit. In addition, the Justices told us they attempted to give their records to the Board; however, the Supervisor told them not to submit the records.

In 2009, the Town's independent auditor did provide an audit of the Supervisor's records; however, the auditor did not provide a management letter to the Town. The Supervisor's records for 2010 were presented to the independent auditor in March 2011 and as of the end of fieldwork,<sup>7</sup> the Town had not received the results from the auditor.

The Board's failure to effectively perform required annual audits or cause those audits to occur, diminishes its ability to effectively monitor the Town's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected.

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<sup>7</sup>Fieldwork ended October 5, 2011.

## **Recommendations**

1. The Board and Town officials should develop and adopt budgets that include realistic estimates for revenues and expenditures.
2. The Board should modify the Town's budget format to include comparative information showing actual revenues and expenditures for the last completed fiscal year, and the current year's modified budget, in addition to the next year's budget.
3. The Supervisor should provide monthly detailed budget to actual reports of both revenues and expenditures to the Town Board in order to monitor the budget and be assured that appropriations exist to cover the claims against the Town.
4. The Board should properly calculate the budget contingency amount allowed by Town Law and provide for that appropriation in the general fund.
5. The Board should properly monitor the water agreements and ensure that the Town of Scriba maintains separate accounting records for each water district and provides periodic reports showing the financial position of each district.
6. The Board should effectively audit, or cause to be audited, the records of Town officials and employees that receive and disburse Town moneys.

## Cash Receipts and Disbursements

An effective system of internal control over cash receipts and disbursements consists of the segregation of cash handling and recordkeeping duties so that no single individual controls most or all phases of a transaction without compensating controls. In addition, Town Law requires the Supervisor to sign checks. The Board may pass a resolution allowing the Supervisor to sign checks with a facsimile signature, affixed by a check signer or other machine. However, a rubber stamp of a signature may not be used, as it can be easily replicated and, therefore, is not a secure device for affixing signatures on checks. We identified internal control weaknesses in the bookkeeper's duties and the Supervisor's use of a rubber stamp to sign checks. These weaknesses could lead to inappropriate transactions being initiated and paid without detection by Town officials.

The bookkeeper receives cash and checks, makes deposits, records receipts and disbursements, prepares and posts journal entries, writes checks, receives the canceled checks from the bank, and reconciles bank accounts with limited oversight. The Supervisor used a rubber stamp to sign checks and the bookkeeper had access to the rubber stamp, which was stored in her office.<sup>8</sup> When an individual who has access to the Supervisor's rubber stamp to sign checks, receives cash and checks and makes deposits, is also responsible for reconciling the related bank accounts, and recording cash receipts and journal entries, there may be opportunities to initiate improper payments or divert cash from deposits and then to conceal such transactions. If it is not feasible to adequately segregate these duties, then Town officials should ensure that compensating controls are in place to protect cash. These controls could include having a different employee or official thoroughly review the work performed; having someone independent of the process receive and review the bank statements and canceled checks; or having someone independent of the process receive and log all cash receipts and compare those receipts to the accounting records and bank deposits.

Due to these control weaknesses, we conducted tests to determine whether cash receipts were deposited and that cash disbursements were for proper Town expenses.<sup>9</sup> We also confirmed all Town depository bank accounts and verified the bank balances at May 31,

<sup>8</sup> The Supervisor told us that he removed the rubber stamp from the bookkeeper's office and the stamp is now stored at his home. He stated that he now manually signs all checks.

<sup>9</sup> See Appendix C for details on our review of cash receipts and disbursements.

2011 agreed with the Town's general ledger cash accounts. While our review did not reveal any impropriety, this does not diminish the need for Town officials to strengthen internal controls over cash receipts and disbursements.

**Recommendation**

7. The Board should segregate the duties of cash receipt and disbursement, recordkeeping, and reconciliation to the extent judged to be practical and cost effective. Where incompatible duties cannot be appropriately segregated, the Board should establish effective supervisory review procedures and other compensating controls to mitigate specific risks.

## Claims Processing

The Board is responsible for auditing claims and establishing internal controls which ensure that each claim contains sufficient supporting documentation to determine compliance with policies and statutory requirements, and that the amount claimed represents a legal obligation and proper charge against the Town. Claims are bills or invoices submitted by vendors requesting payment for goods or services furnished to the Town. With few exceptions,<sup>10</sup> Town Law requires the Board to audit and approve all claims before the Supervisor can disburse payment. The audit of claims should not be a casual review. Instead, it should be a deliberate and thorough process to determine whether proposed payments are proper, including whether the Town's purchasing procedures and pertinent State laws have been followed. All claims must be written, itemized and accurate, include evidence of the approval of the Town official whose action gave rise to the claim, and include evidence that the goods or services have been received. After the claim has been audited, the Town Clerk must file each claim and prepare an abstract of the audited claims directing the Supervisor to pay the claimant the allowed amounts.

The Town's claims auditing process does not ensure that taxpayer funds are properly safeguarded and used only for authorized purposes. We found deficiencies including payment prior to audit, lack of adequate support to demonstrate the payments were proper, and an improper payment. The Town Clerk prepares an Abstract of Unaudited Vouchers and gives it to Board members for review with the vouchers. After the Board approves the vouchers, she uploads the approved claims to a flash drive and gives it to the bookkeeper to generate the Abstract of Audited Vouchers which would include the check numbers for each claim.

During our audit period, the Town Clerk did not directly generate the abstract, as required by the Town Law, or even sign or otherwise acknowledge the Abstract of Audited Vouchers to indicate that the claims listed were approved by the Board, nor did she always receive the audited abstracts from the bookkeeper before the checks were mailed. In addition, Board members do not perform a deliberate audit of claims. One member told us that she does not look at the claims. She only reviews the abstract which lists the claim information. Furthermore, during our initial review of the claims process, we found four of 10 claims paid prior to Board audit were not of the type authorized for prepayment by Town Law.

<sup>10</sup>For example, public utility services, postage, freight and express charges

Because of the control weaknesses, we reviewed 140 claims totaling \$123,151<sup>11</sup> to determine if they were properly authorized, itemized, had evidence of receipt of the goods or services, included proper supporting documentation and were for proper municipal purposes. We found deficiencies in six payments totaling \$11,986 and we found eight additional unauthorized prepaid claims:

Lack of Departmental Approval — Five claims totaling \$9,486 lacked departmental approval. For example, two claims for health insurance totaling \$8,323 and three claims for legal services totaling \$1,163 showed no evidence of departmental approval.

Improper Payment — One claim totaling \$2,500 made to a New Haven senior citizens group was not appropriate. We found no evidence that the Town had a contract with the group. Moreover, the payment had no supporting documentation or itemized receipts of how moneys were spent. The General Municipal Law (GML) allows towns to contract with outside organizations for certain services that further town purposes such as senior citizen programs; however, in these circumstances, the payments must be made pursuant to a contract with the outside service organization. Otherwise,<sup>12</sup> a payment to a private group could be considered a gift of public funds. Town officials have consistently budgeted \$2,500 for this expense in each of the last three years; they told us this has been a longstanding Town practice.

Claims Paid Prior to Audit — In total, 28 claims were paid prior to audit; 20 of these were of the type that may be paid prior to audit (utilities, postage, freight and express charges), while eight of these claims totaling \$1,594 required audit prior to payment. These claims were for garbage pick-up, office supplies, vehicle parts, a gasoline credit card, and work gloves.

The Board's failure to deliberately and thoroughly audit claims, along with the bookkeeper paying certain claims before audit and the failure of the Town Clerk to authorize and direct the Supervisor to pay claims after proper audit increases the risk that unauthorized disbursements for inappropriate purposes could be made and not detected.

## Recommendations

8. The Board should perform a deliberate audit of claims to ensure that all claims contain enough detailed information, supporting documentation, and proper approvals to demonstrate that they comply with statutory requirements and policies; that the amounts

<sup>11</sup> Total includes 28 pre-paid claims totaling \$28,946

<sup>12</sup> The contract should be in writing, specify the services to be provided, the amount of moneys to be paid, and an indication of the purpose being furthered by the payment. Moreover, the amount of moneys paid should be commensurate with the value of the service received.

represent lawful obligations and proper charges against the town; and that goods and services were actually received.

9. The Town Clerk should prepare the Abstract of Audited Vouchers and verify that the amounts claimed agree with what the Board approved prior to the Bookkeeper mailing out the checks to pay the claims.
10. The Board should ensure payments are not made to outside organizations without duly authorized contracts that indicate the services to be provided in exchange for the payments.

## Diesel Fuel Inventory

The Board should develop written policies and procedures to properly safeguard and account for its diesel fuel inventory, which is an increasingly expensive commodity. Perpetual inventory records must be maintained to show the amount of diesel fuel purchased, used, and the balance remaining in inventory. Diesel fuel balances in the perpetual inventory record must be periodically reconciled to physical inventories, and material discrepancies investigated and resolved. Additionally, Town officials must competitively bid their diesel fuel purchase if the annual aggregate amount will exceed the competitive bidding limit established in GML.<sup>13</sup>

The Board has not developed written policies and procedures to safeguard its diesel fuel inventory and Town officials did not maintain an inventory for its diesel fuel, reconcile usage logs to physical inventory levels or procure its diesel fuel through a competitive process. As a result, the Town lacks assurance that diesel fuel is used only for Town vehicles and that it is procured in the most cost effective manner.

The Town has six dump trucks, two tractors, one loader and one grader that use diesel fuel. According to the Town records, during our audit period, the Town purchased approximately 16,700 gallons of diesel fuel at a total cost of more than \$45,000.<sup>14</sup> The Town purchases diesel fuel from a local vendor without the use of competition. Although the local vendor's rates were comparable to the State contract rates, Town officials must still procure their diesel fuel through competitive bidding.

Additionally, Town officials have not properly controlled access to the diesel pump. The diesel fuel is maintained in an above ground tank with an 1,850 gallon capacity. The pump is not locked and is located in an unsecured location next to the Highway Department. The diesel pump is activated through a switch which is located in the Highway Department section of the Town Hall. The pump does not require a key to operate. Because anyone using the building could have access to the fuel tank switch, any Town staff could use diesel fuel for non-Town purposes.

<sup>13</sup> Prior to June 22, 2010, the GML threshold for purchase contracts was \$10,000; it was increased to \$20,000. In lieu of seeking competitive bids, GML provides that local governments may purchase goods and services through the New York State Office of General Services (OGS) or county contracts.

<sup>14</sup> The actual costs incurred per fiscal year were: \$25,750 for 2010 and \$19,430 through May 31, 2011; it seems reasonable to assume that the Town would have exceeded the bidding threshold for purchase contracts (\$20,000) for 2011 with seven months remaining in the fiscal year.

When dispensing fuel, each highway employee is expected to log his name, the date the fuel was pumped, the quantity of fuel pumped and the vehicle name. The diesel fuel pump has a dial on top that registers the flow from the tank. Highway employees reset the dial to zero after they log the amount pumped. The Superintendent told us that although they log the gallons pumped, he does not maintain a perpetual inventory record. In addition, he has concerns that if an employee forgets to log the gallons pumped, he would not know because he does not reconcile usage logs to a physical inventory. Furthermore, he does not know if the amount of fuel delivered is what was received, because no one verifies the amount delivered. Town officials' failure to develop and implement proper procedures and controls over the diesel pump and diesel fuel could allow the inappropriate use of diesel fuel for personal use.

Because of the weakness in controls over the diesel fuel inventory, we performed an analysis to determine if the amount of fuel purchased [during our audit period] was reasonable as compared to recorded fuel usage. Our analysis did not show any significant discrepancies. However, the risk remains that without adequate records and a reconciliation of those records to the actual amount of fuel in the tank as determined by a physical inventory, diesel fuel may be subject to inappropriate use.

## **Recommendations**

11. Town officials should develop written, comprehensive internal control policies and procedures for its fuel inventories that include, but are not limited to, the following:
  - Restricting and controlling access to the fuel pump
  - Periodically determining the fuel levels in the tank
  - Reconciling fuel consumption records (logs) to actual readings
  - Maintaining perpetual inventory records that identify the quantities of fuel purchased/delivered, dispensed and on hand
  - Performing periodic physical inventories and promptly investigating and resolving any discrepancies identified.
12. Town officials should competitively bid diesel fuel if total usage is expected to exceed the bidding limit.

## Justice Court

The Town has a Justice Court which operates with three individuals – two justices and one justice clerk. The Justices adjudicated 539 criminal, civil, small claims and vehicle and traffic cases, which generated over \$45,000 in fines and surcharges.

A well-designed system of internal controls is necessary to ensure that cash received by the Court is safeguarded and that Court activity is properly recorded and reported. The Justices are responsible for properly issuing receipts for all moneys received, recording and reporting all fees collected, depositing all moneys intact and in a timely manner, disbursing all moneys to appropriate agencies or individuals, and reconciling and determining the accountability for all moneys. We found that the Town's Justices did not prepare bank reconciliations or accountability reconciliations of Court assets to known liabilities nor did they deposit moneys in a timely manner. As a result, there is an increased risk that court funds could be lost or misappropriated.

### Accountability

Town justices are responsible for adjudicating cases brought before their Court, and for accounting for and reporting all related Court financial activities. To meet that responsibility, they must maintain complete and accurate accounting records. It is important for the justices to verify the accuracy of financial records and establish control over cash by reconciling bank accounts and comparing cash on hand and in the bank to detailed listings of outstanding bail and amounts due to the State Comptroller's Justice Court Fund (JCF)<sup>15</sup> and others. This comparison is referred to as an accountability analysis.

The Justices did not formally reconcile their bank accounts nor perform accountability analyses on a monthly basis.<sup>16</sup> As a result, we prepared bank reconciliations and accountability analyses for both Justices and found they had a combined total of \$1,233 of unidentified bail money on hand as of May 31, 2011. As of May 31, 2011, Justice Little's bank balance of \$3,583 exceeded known liabilities of \$2,365 by \$1,218, and Justice Searles bank balance of \$5,190 exceeded

<sup>15</sup> Each Justice is required by Law to report the financial activities of each month to the JCF by the 10th of the following month. Once the report is filed, the Court sends a check for the total amount of the report to the chief fiscal officer (CFO) of the Town. JCF then audits the report and determines the State, County, and local shares of the fines and fees collected. JCF sends an invoice and billing statement to the CFO for the amount due the State and County, and a copy of the distribution summary to each Justice.

<sup>16</sup> OSC previously reported these findings in our 1995 and 2000 reports.

known liabilities of \$5,175 by \$15. Known liabilities should equal the adjusted bank balances, and they did not as of May 31, 2011.

- While we were on site, Justice Searles remitted and reported the \$15 to the JCF.<sup>17</sup> We verified the reporting to JCF on his August 2011 monthly report and we verified that the Town Supervisor received the money.
- Justice Little told us that he inherited unidentified bail from his predecessor in 1991 and he does not know to whom the money belongs. As of the end of fieldwork, he told us that he has not turned the moneys over to JCF.

The preparation of a monthly bank reconciliation and accountability analysis is a basic internal control procedure that is necessary to ensure that all Court moneys are properly safeguarded and accounted for accurately. The failure to perform accurate monthly bank reconciliations and then to compare these bank reconciliations with the monthly listing of Court liabilities increases the possibility that errors and irregularities may occur and not be detected in a timely manner. The lack of monthly bank reconciliations and accountability analyses is a contributing cause for the unidentified bail moneys on deposit.

## **Late Deposits**

The deposit of public moneys is an important and integral part of a Justice's duties. The timely and intact deposit of funds helps safeguard these cash assets. The Uniform Civil Rules for Justice Courts require that deposits of Court moneys be made within 72 hours of the date of receipt.

There are no internal control procedures in place to ensure that the Justices were depositing moneys timely. We compared computer-generated receipts with bank deposits to compare the date the deposit was received to the date the deposit was made in the bank in order to determine if the deposits were made timely and intact.

We selected 183 deposits totaling \$22,989 from nine months during our audit period and found that Justice Little was not timely with the bank deposits for 19 out of 98 receipts reviewed by an average of six days. Deposits ranged between two and 10 days late. During that same time period Justice Searles was not timely with the bank deposits for 47 out of 95 receipts reviewed, by an average of 12 days. Deposits ranged between two and 43 days late. By failing to deposit within 72 hours, both Justices are increasing the risk that the Court moneys could be lost or stolen.

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<sup>17</sup> Justice Searles reported the overage to JCF in his monthly report and turned over the check to the Supervisor who remits the moneys to JCF on the Court's behalf.

**Recommendations**

13. The Justices should perform monthly bank reconciliations and analyses of Court liabilities for comparison with available cash. Any differences should be promptly identified, investigated, and if necessary, corrective action taken.
14. Justice Little should report any remaining unidentified moneys promptly to the JCF.
15. The Justices should deposit moneys in a timely manner.

## **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 page numbers that appeared in the draft report. The page numbers have changed during the formatting of this final report.



# TOWN OF NEW HAVEN

## Office of the Supervisor

Russell E. Sturtz III

PO Box 141

New Haven, NY 13121

Phone/Fax: 315-963-3900

June 9, 2012

Office of the State Comptroller  
Division of Local Government and School Accountability  
Syracuse Regional Office  
Rebecca Wilcox, Chief Examiner  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, NY 13202-1428

Dear Ms. Wilcox:

Below is our response to the draft "Report of Examination" dated May 11, 2012:

### Town of New Haven Response to OSC's Draft "Report of Examination"

Audit Results (Pgs. 4-5): The Town disagrees with the statement that "the Board did not properly oversee the Town's financial operations. The Board did not receive or require interim budget to actual reports from the Supervisor to monitor the Town's financial operations or for use in the preparation of the budget as required." During the current administration the Board has received both revenue and expenditure reports with budget comparisons. Some months the delay in receiving bank statements has delayed the production of the reports until after the Board meeting. Bookkeeping staff have answered Board questions regarding budget to actual at meetings where reports were not available.

See  
Note 1  
Page 26

The statement that "Also, the board adopted similar budgets year after year, with little to no consideration of actual expenditure amounts from previous years" is not accurate. While the final budget document only showed the prior year's adopted and modified budgets and the new budget, the budget process involved reviewing the current and past years' revenues and expenditures. There were lengthy discussions during the budget meeting regarding actual historical expenditures and budgeted amounts. Although there were unallocated fund balances at the end of each year there were mitigating circumstances for this during the audit period of 2009 through 2011. The Board was aware that major repairs and renovations were needed on the

See  
Note 2  
Page 26

Town Hall, Highway Garage and roads. The Board decided to appropriate the unexpended fund balances for a Town Hall Capital Improvement Fund, a Capital Reserve Fund, Highway Improvements, and to hold down the tax rate. There were therefore only “similar budgets” in 2009 and 2010 of the audit period. These were uncertain economic times. The Board was uncertain of the level of State support and could not accurately predict other revenue sources such as mortgage and sales taxes. It is a non sequitur to state that “...the board adopted similar budgets year after year...” based on a two year comparison.

The statement “In addition, the Board did not audit or cause to be audited the records of the departments receiving and disbursing cash” is not accurate. While prior administrations did not audit the records, the current administration immediately engaged a CPA firm to audit the 2008, 2009, and 2010 books. These audits did not reveal any material errors.

See  
Note 3  
Page 26

The statement that “an improper payment of \$2,500” was made is misleading. This involved a payment to the local senior group to conduct programs for local senior citizens. This agreement has been in place as long as any Town Official can remember. The error is that there has never been a written contract in place. The payment was not and never has been “improper”.

See  
Note 4  
Page 26

Upon reviewing the Town’s books over several months the auditors from the OSC did not find any malfeasance or misappropriation of funds. While improvements are needed, and will be made, the Town of New Haven is in sound financial condition. This is more than can be said for the oversight authority conducting the audit – the State of New York.

Respectfully Submitted,



Russell E. Sturtz III, Supervisor

## APPENDIX B

### OSC COMMENTS ON THE TOWN'S RESPONSE

#### Note 1

For the majority of our audit period (15 of 17 months), the Board did not receive interim budget reports. The current Board did start to receive budget to actual interim reports in April 2011. We modified our report to acknowledge this change in practice.

#### Note 2

We have modified our report to remove this statement. As amended, our report states that the Board did not make sufficient adjustments to the budgets it adopted, based on historical data.

#### Note 3

We modified our report to clarify that the Board did not audit or cause to be audited the records of all the departments receiving and disbursing cash. Our report acknowledges that the Board hired an independent auditor to audit the Supervisor's records; however, the Board has not required an audit of the Town Clerk or Justices. We verified that the Town's Certified Public Accountant did not perform these audits.

#### Note 4

There was no contract or other documentation provided stating the services to be provided, the amount of money paid for the services, and the public purpose furthered by the payment of Town moneys. Therefore, this payment is improper.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to assess the Board's system of internal controls over selected Town operations. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We inquired of Town officials about the budget process and how they monitor the Town's budget.
- We compared budget estimates to actual revenues and expenditures to determine if the revenue and expenditure estimates were reasonable.
- We evaluated the budgetary practices over Water District #3.
- We confirmed all Town depository bank accounts and verified the bank balances at May 31, 2011 with the Town's general ledger cash accounts.
- We obtained a list of payments made to the Town from New York State, totaling \$33,677, and Oswego County, totaling \$370,366 and traced the payments to the Town's accounting records and deposits on bank statements.
- We traced two months of deposits, June 2010 and January 2011, for all funds totaling \$677,862 from the cash receipts journal to the general ledger cash accounts and deposits on bank statements to determine if receipts were properly deposited.
- We traced two different months of deposits, December 2010 and May 2011, for all funds totaling \$558,936 from the bank statements to the cash receipts book and to the cash control accounts to verify deposits were properly recorded.
- We compared the Town's 2010 and 2011 tax warrants with the amounts budgeted and recorded as revenue and examined the settlement of taxes with the County.
- We traced 285 checks totaling \$226,787 from the payroll registers or abstracts to the bank statements and canceled checks verifying payee name, date and amounts for three months, January, 2010, December 2010, and April 2011. We selected the first month of the fiscal year, the last month of the fiscal year and the next to the last month of the audit period so that we would have canceled checks to review.
- We tested journal entries that decreased cash during one sample month for all funds and reviewed available supporting documentation.
- We interviewed officials and employees to obtain an understanding of their processes regarding the claims audit process. We reviewed 140 claims totaling \$123,151 to determine if payments were properly authorized, itemized, had evidence of receipt of the goods or service, included

proper supporting documentation and were for proper municipal purposes. We selected January, 2010, December 2010, and April 2011, the same months we selected for our cash disbursements evaluation to determine if payments were properly supported and approved.

- We interviewed the Highway Superintendent to obtain an understanding of controls over diesel fuel and whether or not he procured diesel fuel through competitive bidding.
- We performed a reasonableness analysis of diesel fuel purchased and used based on paid invoices and fuel logs during our audit period.
- We interviewed Court personnel about their processes and procedures and performed accountability analyses for both Justices' bank accounts.
- We traced Justice Court receipts to deposits to determine if deposits were made timely. We selected every other month in our audit period beginning with January, 2010 and tested all deposits for both Justices, a total of nine months of deposits amounting to \$22,989.
- We reviewed monthly reports to the Justice Court Fund to verify they were submitted on time and that money was turned over to the Town Supervisor in a timely manner.

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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