



# Town of Olean

## Internal Controls Over Selected Financial Activities

### Report of Examination

Period Covered:

December 24, 2007 — May 3, 2012

2012M-138



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>EXECUTIVE SUMMARY</b>	3
<b>INTRODUCTION</b>	5
Background	5
Objective	5
Scope and Methodology	5
Comments of Local Officials and Corrective Action	6
<b>PAYROLL</b>	7
Recommendation	10
<b>CASH DISBURSEMENTS</b>	11
Recommendations	12
<b>SEWER DISTRICTS</b>	13
Billing and Monitoring	13
Cash Receipts	15
Recommendations	16
<b>APPENDIX A</b> Response From Local Officials	17
<b>APPENDIX B</b> Audit Methodology and Standards	21
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	23
<b>APPENDIX D</b> Local Regional Office Listing	24

# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

December 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 Olean, entitled Internal Controls Over Selected Financial Activities. 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 Olean (Town) is located in Cattaraugus County and has a population of approximately 2,000 residents. The Town provides a variety of services to its residents including fire protection, street maintenance, snow removal, street lighting, sewer and general government support. Budgeted appropriations for 2012 totaled approximately \$800,000, for the general and highway funds, funded primarily by real property taxes, State aid and sales tax. The Town also receives approximately \$74,000 per year in sewer district charges.

The Town is governed by an elected Town Board (Board), which is comprised of the Town Supervisor (Supervisor) and four Council members. The Supervisor is the Town's chief fiscal officer who, along with the elected Town Clerk, is responsible for sewer district billing and collections.

### **Scope and Objective**

The objective of our audit was to examine and evaluate the internal controls over payroll, cash disbursements, and sewer district billing and receipts for the period January 1, 2011, through May 3, 2012. For certain payroll-related items, we extended our review to include the period December 24, 2007 through December 31, 2010. Our audit addressed the following related questions:

- Are internal controls over the payroll process appropriately designed and operating effectively?
- Are internal controls over cash disbursements appropriately designed and operating effectively?
- Are internal controls over sewer district billing and collections appropriately designed and operating effectively?

### **Audit Results**

We found that the Board did not have a procedure in place to ensure that only authorized wages and salaries were paid as intended, nor did the Board audit the records of the Supervisor, as required. As a result, the former<sup>1</sup> Supervisor was able to process and make payroll payments that were not authorized by the Board to himself, the Town Clerk (who is his sister), and a highway department employee (who is his son), totaling more than \$17,000.<sup>2</sup>

<sup>1</sup> The former Supervisor was in office from January 1, 2008 through December 31, 2011.

<sup>2</sup> Former Supervisor (\$7,112 and \$2,107 from 2007), Town Clerk (\$3,500) and former Supervisor's son (\$4,600)

The Board did not adopt policies and procedures for the cash disbursement process. Further, it did not ensure the Town Clerk prepared monthly abstracts of claims, as required, and did not ensure that all claims were presented for audit and that each claim had adequate supporting documentation. As a result, the former Supervisor was able to process and pay claims without proper Board audit. These included 23 disbursements from our test sample, totaling approximately \$14,300, that did not have supporting documentation attached to the claim or lacked a claim form entirely. Although payees did not appear to be unusual for Town purposes, there is a significant risk that moneys could be misappropriated when claims are not sufficiently documented and audited prior to payment.

Finally, we found that the Board had not established an adequate system of internal controls for the Town's sewer districts.<sup>3</sup> Town officials could not ensure that services were billed to all benefitted property owners at Board-approved rates because local laws or resolutions establishing the rates were not available for our review. As a result, there is no assurance that benefitted property owners are being billed and billed at the correct rate. While only minor discrepancies were found with the cash receipt process; significant discrepancies were found in the fiscal monitoring process that will likely result in a deficit of one of the districts for 2012 aggregating to nearly \$27,000.

Our Investigations Unit reviewed the results of this audit and referred it to law enforcement officials.

### **Comments of Local Officials**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they have taken corrective action.

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<sup>3</sup> The South Olean Sewer District, Dugan East Sewer District, and East Olean Sewer District

# Introduction

## Background

The Town of Olean (Town) is a rural community located in southeastern Cattaraugus County adjacent to the Pennsylvania border. According to the 2010 census, the Town had a population of approximately 2,000 residents. The elected Town Board (Board), consisting of the Supervisor and four Council members, is the legislative body responsible for overall Town operations. The Supervisor serves as the Town's chief executive and chief fiscal officer. In addition, the Supervisor, along with the elected Town Clerk, is responsible for the proper billing and collection of sewer district charges.

The Town provides a variety of services to its residents including fire protection, street maintenance, snow removal, street lighting, sewer and general government support. The Town accounts for the majority of these expenditures in the general and highway funds. Budgeted appropriations for these funds in 2012 totaled approximately \$800,000 funded primarily through property taxes, sales tax, and State aid. The Town also receives approximately \$74,000 per year in sewer district charges.

## Objective

The objective of our audit was to examine and evaluate the internal controls over payroll, cash disbursements and sewer district billing and collections. Our audit addressed the following related questions:

- Are internal controls over the payroll process appropriately designed and operating effectively?
- Are internal controls over cash disbursements appropriately designed and operating effectively?
- Are internal controls over sewer fund billing and collections appropriately designed and operating effectively?

## Scope and Methodology

To accomplish our objective we interviewed Town officials and examined cash disbursement and sewer district records from January 1, 2011, through May 3, 2012. We extended our review of certain payroll records for the period December 24, 2007, through March 7, 2012.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of  
Local Officials and  
Corrective Action**

Our Investigations Unit reviewed the results of this audit and referred it to law enforcement officials.

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they have taken 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 Clerk's office.

## Payroll

Board members are the Town's fiscal stewards responsible for directing and overseeing the Town's financial activities. The Board is responsible for establishing and approving all wages paid to Town employees. The Supervisor, acting as the chief financial officer, is responsible for processing, recording, and distributing payroll payments to employees. Given this separation of functions, it is imperative that the Board establish internal controls to ensure that critical oversight is provided, and that Board-approved wages are processed and paid correctly. Such oversight must include an annual audit of the Supervisor's financial records, including payroll, to help ensure that only authorized and accurate payments were made.

We found that the Board did not have a procedure in place to ensure that only authorized wages and salaries were paid as intended, nor did the Board audit the records of the Supervisor, as required. As a result, the former<sup>4</sup> Supervisor was able to process and make payroll payments that were not authorized by the Board to himself, the Town Clerk (who is his sister), and a highway department employee (who is his son), totaling more than \$17,000.<sup>5</sup>

Former Supervisor — Separate salary appropriations were included in the Board-adopted budgets for the Supervisor for the following Town functions: Town Supervisor, budget officer and bookkeeper. The Supervisor is responsible for maintaining the Town's financial records. Therefore, if a bookkeeper is not appointed, the supervisor would perform necessary bookkeeping functions as part of his duties and any compensation for these duties would be included in his Supervisor salary appropriation.<sup>6</sup>

We reviewed the payroll payments to the former Supervisor for the entire time he was in office and found that he received compensation that exceeded the amount of his budgeted salary. The budgeted salary in Table 1 includes appropriations for Town Supervisor, budget officer and bookkeeper. We found no evidence that the additional amounts were approved by the Board through either the adopted budget or through a Board resolution in the meeting minutes.

<sup>4</sup> The former Supervisor was in office from January 1, 2008 through December 31, 2011.

<sup>5</sup> Former Supervisor (\$7,112 and \$2,107 from 2007), Town Clerk (\$3,500) and former Supervisor's son (\$4,600)

<sup>6</sup> When the town supervisor is also the town budget officer, the town supervisor may receive, in addition to any other compensation, a salary as budget officer, as may be fixed by the town board (Town Law Section 27[4]). There is no similar authority for a supervisor who also performs bookkeeping functions to receive a separate salary.

<b>Table 1: Payments Made to Former Supervisor</b>			
<b>Fiscal Year</b>	<b>Budgeted Salary</b>	<b>Actual Payments</b>	<b>Overpayments</b>
2008	\$22,070	\$25,297 <sup>a</sup>	\$3,227
2009	\$23,500	\$24,500	\$1,000
2010	\$24,550	\$25,750	\$1,200
2011	\$25,250	\$26,935	\$1,685
<b>Total</b>	<b>\$95,370</b>	<b>\$102,482</b>	<b>\$7,112</b>

<sup>a</sup> Excludes \$897 appropriately paid in January 2008 for highway work performed in December 2007.

Further review of the apparent overpayments made for 2008 revealed that the majority, \$2,846, was for accrued leave time associated with his prior employment by the Highway Department<sup>7</sup> to which he was not entitled. We expanded our review of payments to the former Supervisor to include December 2007 and found that he received an additional payment of \$2,107 with a check dated December 24, 2007, signed by the Town Clerk,<sup>8</sup> also for leave time to which he was not entitled. When we questioned the former Supervisor about this payment he stated that the Board, and prior Highway Superintendent, approved the payments because he started work in 1999 and that he was eligible, per the union contract,<sup>9</sup> to receive compensation for unused time. When we showed the former Supervisor his retirement application that noted his start date with the Town as January 24th, 2000, he agreed that he had less than 10 years of service at the time of the payment and was therefore ineligible for payment of accrued time.

Town Clerk — Separate salary appropriations were included in the adopted budgets for the Town Clerk for the following positions that she held: Town Clerk/Collector, Registrar, Deputy Supervisor<sup>10</sup> and cleaner.

We reviewed all payroll payments to the Town Clerk for 2008 through 2011 and found a pattern of overpayments.<sup>11</sup> The budgeted salary in Table 2 includes appropriations for Town Clerk, Registrar, Deputy

<sup>7</sup> Prior to assuming elected office as Supervisor on January 1, 2008, the former Supervisor was employed by the Town's Highway Department as an equipment operator.

<sup>8</sup> The current Town Clerk served as bookkeeper prior to 2008. The Attorney General's Office has expressed the opinion that these two positions are incompatible.

<sup>9</sup> Per the union contract, any bargaining unit member leaving the employ of the Town with a minimum of 10 years permanent, full-time employment will receive compensation for unused sick leave.

<sup>10</sup> The Attorney General's Office has expressed the opinion that the positions of Town Clerk and Deputy Supervisor are incompatible and, effective January 1, 2012, the Town Clerk was no longer the Deputy Supervisor.

<sup>11</sup> No overpayments were found during 2008.

Supervisor and cleaner. We again found no evidence that these additional amounts were approved by the Board through either the adopted budget or through a Board resolution in the meeting minutes.

<b>Fiscal Year</b>	<b>Budgeted Salary</b>	<b>Actual Payments</b>	<b>Overpayments</b>
2009	\$12,140	\$13,240	\$1,100
2010	\$12,940	\$14,140	\$1,200
2011	\$13,440	\$14,640	\$1,200
<b>Total</b>	<b>\$38,520</b>	<b>\$42,020</b>	<b>\$3,500</b>

When we questioned the Clerk about these apparent overpayments she stated she was not aware that she had received more money than she was entitled to, and that her brother, the former Supervisor, must have made a mistake when calculating her yearly salary amounts.

Former Supervisor’s Son as Highway Employee — Given the apparent overpayments to both the former Supervisor and the Town Clerk, we extended our review of payroll payments to include all payments made to family members of the former Supervisor. We found that the former Supervisor’s son worked for the Highway Department in 2008 as a seasonal employee. According to payroll records, he received approximately \$8,500 from July through December 2008. Although time sheets were available to support the payments made, we question the legitimacy of approximately \$4,600 of these payroll payments paid from September to December 2008.

Based on interviews with the Highway Superintendent (Superintendent), and other department employees, the son’s seasonal employment ended in August 2008. As such, we reviewed each completed time sheet for the former Supervisor’s son between September 2008 and December 2008 with both the Superintendent and Deputy Superintendent (Deputy). Both individuals stated that the signatures presented, approving the work performed, were not theirs and believed that they were forgeries. One example of an apparently inappropriate payment was from a time sheet dated October 31, 2008. According to the time record, the former Supervisor’s son attended a CPR class along with other highway employees. Records received from the training vendor do not show attendance by the former Supervisor’s son.

When we questioned the former Supervisor about the apparent falsified time records, he admitted that he signed both his son’s and the Superintendent’s name in an attempt to create time records that matched those of the other Highway Department employees. He indicated that he did this to conceal the time that he had his son working, without the knowledge of other highway employees or Town

officials, so that his son could verify the other employees' work hours and activities. However, he admitted that his son had not attended the CPR class for which he was compensated.

Annual Audit — All Town officers and employees who receive or disburse moneys during the year must account for such moneys and present their supporting books and records to the Board by January 20th of the following year.<sup>12</sup> In accordance with this statutory requirement, the Board must then audit these records or engage a CPA or public accountant to do so. The results of the audit should be included in the minutes. This audit should include, among other things, a comparison of payroll checks issued against Board-approved wages and salaries. If any discrepancies are found, they should be investigated and corrective action taken immediately.

Had the Board performed the annual audit of the Supervisor's records, they may have identified this pattern of overpayments to the former Supervisor and Town Clerk and questionable payments to the Supervisor's son.

## **Recommendation**

1. The Board should adopt policies and procedures for the payroll process and review payroll records during its annual audit, to ensure that only authorized amounts are being paid.

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<sup>12</sup> Town Law Section 123

## Cash Disbursements

The Board is responsible for establishing an adequate system of internal controls that provides reasonable assurance that the Town's cash assets are protected from the threat of being lost or stolen or used for inappropriate purposes. While Town Law provides a level of control by separating certain cash disbursement duties between the Town Clerk, Board and the Supervisor, the Board must create an effective system of internal controls that ensures these duties are segregated and that claims paid are supported by appropriate documentation, authorized, represent legitimate Town purposes, and made in compliance with Town Law. This becomes especially important when a relationship<sup>13</sup> exists between the Town Clerk and the Supervisor that may limit the effectiveness of controls established by Town Law. At a minimum, the duties of presenting claims to the Board for audit and recording claims approved for payment must be separated from the ability to make payment.

The Supervisor is responsible for paying claims after their audit and approval for payment by the Board. In addition, the Town Clerk is responsible for numbering and recording all claims presented to the Board for payment, preparing an abstract of audited claims after the Board's review and approval, and recording the audit of claims in the Board minutes. The abstract, signed as attested to by the Town Clerk, directs the Supervisor to make payment for only the claims listed, as audited and approved by the Board. Allowing for certain exceptions,<sup>14</sup> the Supervisor should only pay claims as listed on this abstract; and the Town Clerk should record the claim numbers and aggregate dollar amounts of the claims audited and approved by the Board in the meeting minutes.

We found that the Board did not ensure that the Town Clerk presented all claims to the Board for audit, prepare and sign an abstract of audited claims as required, or identify the claims approved for payment in the meeting minutes. The former Supervisor was able to process and pay

<sup>13</sup> The current Town Clerk and former Town Supervisor (January 2008 – December 2011) are siblings.

<sup>14</sup> According to Town Law Article 3 the Supervisor may pay fixed salaries, the principal and interest on indebtedness, amounts becoming due upon lawful contracts for periods exceeding one year, and compensation for services of officers or employees regularly engaged by the Town at agreed-upon wages by the hour, day, week, month or year without prior audit. In addition, the Board may by resolution authorize the payment in advance of audit of claims for public utility services, postage, freight and express charges. All such claims shall be presented at the next regular meeting for audit.

claims without adequate documentation having been presented for Board audit and approval. As a result, there is an increased risk that Town funds could be used inappropriately.

We randomly selected 50 claims, totaling approximately \$56,400, from the general and highway funds that were paid during 2011 to determine if they were supported by adequate documentation, reviewed by the Board, and were for legitimate Town purposes. Of the 50 claims selected, 23 totaling approximately \$14,000 lacked adequate supporting documentation needed for Board audit prior to approval for payment. Sixteen of the 23 claims (\$13,600) did not have any supporting documentation, while the remaining seven (\$700) were not supported by original receipts attached to the claim form. Although the payees did not appear to be unusual for Town purposes, there is a significant risk that moneys could be misappropriated when claims are not sufficiently documented and audited by the Board prior to payment.

In addition, given the apparent payroll overpayments to the former Supervisor and Town Clerk as noted previously, we also reviewed all payments made during 2011 to the Town Clerk and former Supervisor, as well as other identified family members, found one payment for \$592, made to the former Supervisor, as a reimbursement (per the check memo) without a claim or any supporting documentation.

## **Recommendations**

2. The Board must adopt policies and procedures for the cash disbursement process to ensure that only claims audited and approved by the Board are paid.
3. The Town Clerk should list claims approved for payment by the Board on abstracts signed by her that instruct the Supervisor to make payment.
4. The Supervisor should pay only those claims included on authorized signed abstracts, except where legally allowed to do otherwise.
5. The Town Clerk should include the claim numbers and aggregate dollar amount of claims approved for payment by the Board in the minutes.

## Sewer Districts

Sewer districts are established to offer sewer service to properties in a geographic area of the town. Property owners are then charged for those services through assessments or fees. Unless established with their own legislative board, the town board is responsible for the oversight of sewer district finances. In order to be able to provide these services to benefitted property owners on a continuous basis, it is imperative that town officials ensure that districts are self-supporting, all sewer services are billed at board-adopted rates, bills are directed to each benefitted district property owner, and that when payment is received, it is adequately protected from the threat of being lost or stolen.

We found that the Board had not established an adequate system of internal controls for the Town's sewer districts.<sup>15</sup> Town officials could not ensure that services were billed to all benefitted property owners at Board-approved rates because local laws or resolutions establishing the rates were not available for our review. As a result, there is no assurance that benefitted property owners are being billed and billed at the correct rate. While only minor discrepancies were found with the cash receipt process, significant discrepancies were found in the fiscal monitoring process that will likely result in a deficit of one of the districts for 2012 aggregating to nearly \$27,000.

### **Billing and Monitoring**

The Board is responsible for adopting the rates billed to district residents and to monitor each district's financial condition to ensure that revenue is adequate to fund district expenditures.

We found that the Board failed to adopt any policies and procedures for district billing. We found no evidence the Board authorized the current sewer rates that were used to bill district residents.

During 2011, all aspects of the billing process were addressed entirely by the former Supervisor without any Board oversight. As a result of this weakness, we examined each of the three districts' billing activity for 2011 to determine if all applicable residents were billed, and if amounts billed were adequate to fund district expenditures.

We found that not all benefitted district residents were billed. For example, only 28 residents/property owners are being billed in the Dugan East Sewer District, while the City of Olean, which provides sewage treatment for this district, billed the Town for 43 services

<sup>15</sup> The South Olean Sewer District, Dugan East Sewer District, and East Olean Sewer District

quarterly. Similarly, the Town Assessor's records include more parcels in the other two districts than the Town bills property owners. Subsequent to our bringing this matter to the attention of the current Supervisor during fieldwork, she began working closely with the Assessor to ensure all benefitted district residents are properly billed.

Although the Town's accounting records do not adequately segregate revenues and expenditures by district, we compared expenditures with billings to customers and found that revenues were not adequate to fund district costs for 2011.

<b>District Expenditures</b>	<b>Dugan East</b>	<b>East Olean</b>	<b>South Olean</b>
City Sewage Treatment	\$21,404	\$46,508	\$17,639
Debt Service	-	\$13,750	\$30,000
<b>Total Costs</b>	<b>\$21,404</b>	<b>\$60,258</b>	<b>\$47,639</b>
Amount Billed to District Residents	\$13,084	\$37,204	\$44,599
<b>2011 Operating Deficit</b>	<b>(\$8,320)</b>	<b>(\$23,054)</b>	<b>(\$3,040)</b>

In addition, sewage from the adjoining Town of Portville district<sup>16</sup> flows to the City of Olean for treatment through the Town of Olean's East Olean Sewer District lines. Although the Town is billed for this flow by the City of Olean, the Town has not billed the Town of Portville. This has contributed to the East Olean Sewer District's operating deficit. Recently, the Towns recognized this lack of billing and have had discussions regarding the amount due to the East Olean Sewer District.

Given these operating deficits, the lack of appropriate accounting by the district and the Board's lack of involvement in the rate setting and billing process, we question the present financial condition of the districts. The bank account balances for each of the three districts at March 31, 2012 may represent the best measure available under the circumstances of each district's financial position at that date. We analyzed the sewer district activity that we were aware of and projected the following for the fiscal year ending December 31, 2012:

<sup>16</sup> Happy Hallow Sewer District

<b>Table 4: Financial Condition of Sewer Districts</b>			
	<b>Dugan East</b>	<b>East Olean</b>	<b>South Olean</b>
Adjusted Bank Balance, March 31, 2012	\$16,222	\$42,168	\$10,735
Accounts Receivable <sup>a</sup>	\$3,733	\$5,935	\$4,691
Due from Town of Portville <sup>b</sup>		\$67,620	
Projected 2012 Billing <sup>c</sup>	\$13,084	\$43,084	\$44,599
<b>Potentially Available Funds</b>	<b>\$33,039</b>	<b>\$158,807</b>	<b>\$60,025</b>
Less: Outstanding Liabilities <sup>d</sup>		\$95,906	\$39,745
Less: Projected 2012 Expenditures	\$21,404	\$60,258	\$47,639
<b>Projected 12/31/12 Fund Balance</b>	<b>\$11,635</b>	<b>\$2,643</b>	<b>(\$27,359)</b>
<sup>a</sup> The Town invoiced district residents for 4th quarter of 2011 on April 10, 2012. <sup>b</sup> This amount is presently being reviewed by the Town of Portville. <sup>c</sup> Based on 2011 billings <sup>d</sup> Sewage treatment costs for 2010 and 2011 for the East Olean and South Olean Sewer Districts were not billed to the Town by the City until April 2012.			

Had the Supervisor maintained suitable accounting records and the Board adopted appropriate internal controls for sewer district billing and monitoring, Town officials may have identified the trend in yearly operating deficits. These yearly deficits will likely result in a 2012 year end fund deficit for one of the three districts totaling more than \$27,000. Further, both of the other districts, while not likely to report a fund deficit at the end of this fiscal year, do not presently generate sufficient revenues to fund annual expenditures. Therefore, assuming a similar trend in revenue and expenditure levels, both of these districts will also experience fund deficits in the near future.

## Cash Receipts

The Board is responsible for establishing an internal control system that provides reasonable assurance that cash is safeguarded and financial transactions are properly recorded. Included in such a control system is the proper segregation of duties to ensure that no one person controls all phases of a transaction. If it is not feasible to segregate duties, Town officials must institute compensating controls, such as enhanced management oversight.

We found that the Board had not established an adequate system of internal controls over cash receipts. The Board failed to adopt any policies and procedures establishing the guidelines for the cash collection process and also failed to provide adequate oversight of the Town Clerk who was, prior to March 2012,<sup>17</sup> solely responsible for all collection activities. While the former Supervisor processed and printed quarterly bills for the three sewer districts, the Town Clerk was responsible for mailing the bills, receiving and recording payments,

<sup>17</sup> During field work, the newly elected Supervisor began to oversee the process of cash collections and was drafting policies and procedures for Board review and approval.

preparing and making deposits, and re-levying unpaid balances on the tax roll. She also served as the Tax Collector responsible for collecting and recording taxes, including re-levied, unpaid sewer fees.

As a result of a lack of segregating incompatible duties, we reviewed cash collection activity for the three Districts from January 2011 through December 2011 totaling approximately \$36,000. While only minor discrepancies were found with the records maintained and deposits made, this does not diminish the apparent threat to cash assets created by the Board's lack of oversight.

## **Recommendations**

6. The Board should properly establish sewer rates for each of the districts.
7. The Board should monitor the financial condition of the sewer districts to ensure sewer rates generate sufficient revenue to fund annual costs and address any fund deficits.
8. The Board should consult with legal counsel to determine the appropriate action to address those residents who were receiving sewer benefits, but were not being billed by the Town.
9. The Board should adopt policies and procedures for the proper billing and collecting of sewer district usage and capital costs.
10. The Board should periodically review District property records with the assessor, building inspector and City of Olean officials to determine if all benefitted District residents are included on the Town's quarterly billings.

## **APPENDIX A**

### **RESPONSE FROM TOWN OFFICIALS**

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

# Town of Olean

Town Officials  
Town Hall  
2634 Route 16 North  
Olean, NY 14760  
716-373-0582

Highway Superintendent  
Town Garage  
1948 Godfrey Hollow Rd  
Olean, NY 14760  
716-372-1060

Town Of Olean  
Audit Response & CAP  
#2012M-138

We at the Town of Olean received the draft of our audit and are in agreement of what was posted in the report.

## PAYROLL

Audit recommendations is that the Board should adopt policies and procedures for the payroll process and review records during its annual audit, to ensure that only authorized amounts are being paid.

Payroll is done by the Supervisor (Chief Executive) for the Town of Olean. Payroll is done weekly & monthly. Work sheets are received from the Highway Superintendent with his signature stating and agreeing to hours worked by each employee for that work week. The Supervisor then processes each and puts the hours in payroll on [REDACTED]. Checks are written or direct deposited for that pay period for the following Wednesday as pay date. Monthly payroll is done for the Town Clerk, Supervisor, Board members, Justice, Court Clerk, & Code Enforcement.

Bank statements are presented to the Board at every Monthly meeting for their review of what has been written in payroll for the prior month. This is how they can verify what is being paid to each employee of the Town of Olean.

Also in regards to payroll, all Fed Tax deposits are made on Mondays for the previous weeks payroll. State withholding taxes are done at the first of the month for the previous months deductions. Quarterly reports are done by an accountant that the Board approved to help keep the books in correct working order.

This is how payroll has been being done since February 2012. A binder for policies & procedures will be kept as well as result from this Audit.

## CASH DISBURSEMENTS

Audit recommendations that the Board should adopt policies and procedures for each disbursement process, Town Clerk should list claims for payment by the Board on abstracts and signed by her to instruct Supervisor to make payments, Supervisor should pay only those

claims on signed abstracts, and Town Clerk should include numbers and aggregate dollar amount of claims approved for payment by the Board.

Vouchers are made for every bill that is to be paid with invoices attached. The Supervisor makes an abstract with all vendors and amounts to be paid and presents them along with all vouchers to be reviewed and each voucher is signed by Board members. There are two separate abstracts that are presented, Highway Dept. and Town Hall. Vouchers are also signed and approved by signatures of the Supervisor and Highway Superintendent. Checks are written by the Supervisor and check numbers are added to the abstracts, as well as check stub attached to bill that was paid. Abstracts are approved and signed by Town Clerk and numbered. In the minutes the Clerk puts amounts and voucher numbers that were approved to be paid by the Board for that meeting.

This procedure has been approved by the Board since February 2012. A binder for policies and procedures will be kept as well as a result from this Audit.

### SEWER DISTRICTS

Audit recommendations that the Board should establish sewer rates for each district, Board should monitor financial condition of districts to ensure sewer rates generate sufficient funds and address any fund deficits, Board should consult legal counsel to determine appropriate action for residents that were receiving benefits, but were not billed, and the Board should adopt policies and procedures for proper billing and collecting of usage and capital costs.

The Supervisor prepares & mails bills each quarter, preferably by the end of the 1<sup>st</sup> month in each quarter. Rates are established by the Supervisor as result of what is billed from the City of Olean. These rates are presented to the Board for approval.

The Town Clerk will record on customers copy of bill and in sewer log book the payment type and amount and stamp it paid with initialing it.

Also a written receipt out of receipt book is to be given to customers with all information recorded on it when paying in person. Cash payments needs reference number written on receipt.

Town Clerk will do deposits with duplicate deposit slips on Monday, Wednesday, & Friday. Clerk will leave 15 minutes before work day ends to do this.

Copies of checks need to be made before deposits.

Supervisor will record all payments into [REDACTED] in order to keep accurate records.

Also as result of this Audit, surveys were sent out to all sewer districts to find out who has all been hooked into these districts, as for there was no master list of residents in these districts for billing purposes. In 2013 billing will be done quarterly for payment of services. Currently some residents pay on their taxes and others pay quarterly. This is being done to get a better control of finances in these accounts. Capital costs have yet to be established for payment for residents that were not being billed. This is still being reviewed on what is the best way to approach this matter, but will be done in the near future.

This procedure has been approved by the Board since March 2012 and will continue to update policies and procedures in these sewer districts as for it has been a long process in

getting this much done so far. Monthly sewer meetings have been established to continue straightening out these districts.

Annette M. Parker

November 27, 2012

Town of Olean Supervisor  
Chief Executive Officer

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by Town officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, cash receipts and disbursements, Supervisor's records and reports, purchasing and claims processing, and payroll and personal services.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents such as Board minutes, bank statements, and available financial records.

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 on the reported objective and scope by selecting for audit those areas most at risk. We selected to audit internal controls over payroll, cash disbursements, and sewer district billing and collections.

For the payroll process, we examined Town records for the period December 24, 2007, to March 7, 2012 to determine whether improper and/or unsupported payroll related disbursements had occurred and whether Town officials had met their responsibility to implement effective internal controls to safeguard Town resources. Our audit procedures for payroll included:

- We interviewed appropriate Town officials and employees regarding the policies and procedures used to approve and process payroll transactions.
- We examined the Town's payroll records and reports, supporting documentation, W-2s, budgets, and cancelled checks.
- We reviewed the Board minutes for the period December 2007 to March 2012.
- We reviewed the Town's collective bargaining agreement for highway employees that included the period December 1, 2007 through January 31, 2008.
- We examined available timesheets, highway fund payrolls, and individual earning records.

For the cash disbursement process, we examined Town records for the period January 1, 2011, to December 31, 2011 to determine whether improper and/or unsupported disbursements had occurred and whether Town officials had met their responsibility to implement effective internal controls to safeguard Town resources. Our audit procedures included following:

- We interviewed appropriate Town officials and employees regarding the policies and procedures used to disburse Town funds for other than payroll purposes.

- We reviewed the Board minutes for evidence of claims audit and approval.
- We randomly selected 25 payments from the two major operating funds for testing to determine if payments were approved, supported, and for a valid Town purpose.
- We examined all abstracts and cancelled checks for all of the Town's operating funds in 2011 and reviewed all payments made to the former Supervisor, the Town Clerk, and any other family members of the former Supervisor to determine if payments were approved, supported, and for a valid Town purpose.
- We documented and reviewed all electronic bank transfers for legitimacy.

For sewer district billing and collection, we examined Town records for the period January 1, 2011, to March 31, 2012 to determine if all benefitted district residents were billed accurately and timely. We also reviewed the adequacy of revenues to fund operational and debt service costs and whether Town officials had met their responsibility to implement effective internal controls to safeguard Town resources. Our audit procedures for sewer district billing and collection included:

- We interviewed appropriate Town officials and employees regarding the policies and procedures used to bill and collect user fees and capital costs from district residents.
- We requested and compared bank deposit compositions from each sewer district account against collection records maintained by the Clerk.
- We compared a compiled list of district residents, as prepared by the Assessor, against district billing and tax levy records.
- We contacted the City of Olean to determine outstanding liabilities for each district at March 31, 2012.
- We mailed verification forms to district residents to determine the accuracy of past due account balances.

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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