



Town of Plainfield

Financial Operations

Report of Examination

Period Covered:

January 1, 2010 — November 28, 2011

2012M-58



Thomas P. DiNapoli

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Division of Local Government and School Accountability

July 2012

Dear Town Officials:

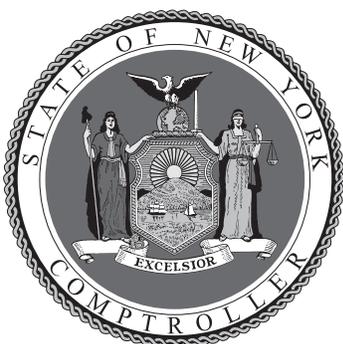
A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and 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 Plainfield, entitled Financial 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

EXECUTIVE SUMMARY

The Town of Plainfield (Town) is located in Otsego County and has a population of 915 people as of the 2010 US Census. The Town's disbursements in 2011 totaled approximately \$744,000. The Town Supervisor (Supervisor) is both the Chief Executive Officer and the Chief Financial Officer, while the Town Board (Board) is the legislative and policy-setting body of the Town. A new Supervisor began his term on January 1, 2012.

Scope and Objective

The objective of our audit was to review the Town's financial operations for the period January 1, 2010 to November 28, 2011. We extended our review back to 2004 to determine if the former Supervisor had filed annual financial reports. Our audit addressed the following related questions:

- Did the Board ensure that the former Supervisor maintained adequate, timely and accurate accounting records and reports, and were these records audited annually by the Board?
- Did the Board approve all payments prior to being disbursed?

Audit Results

The Board did not ensure that the former Supervisor maintained adequate, timely and accurate records and reports. Consequently, the former Supervisor incorrectly recorded expenditures as assets and prepared bank reconciliations that had cash differences up to \$50,000. In addition, he recorded liabilities, outstanding checks and deposits in transit totaling \$255,000¹ that were not substantiated. He also prepared monthly reports that did not include cash balances and did not file annual financial reports since 2004. Furthermore, the Board did not audit the former Supervisor's records and reports for 2010 until December 2011, and the audit did not include revenues or cash balances. Moreover, the records were in such poor condition that an effective audit was not possible. As a result, the taxpayers have no assurance that the responsibilities of the Supervisor and Board are being fulfilled.

The former Supervisor recorded seven checks totaling \$6,300 that did not have adequate supporting documentation and bank fees totaling \$6,000 without the Board's knowledge or approval. The Board does not know if the recorded checks represent accounting errors, voided checks or outstanding checks for improper purposes. The bank fees were for analysis reports that the former Supervisor received. The Board should evaluate the usefulness of these reports given the cost of this service.

¹ Accounts payable \$77,841 + accrued liabilities \$54,934 + outstanding checks \$23,890 + deposits in transit \$98,929 = \$255,594

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 planned to take corrective action. Appendix B includes our comments on the issue raised in the Town's response letter.

Introduction

Background

The Town of Plainfield (Town) is located in Otsego County and has a population of 915 people as of the 2010 US Census. The Town provided services to its residents that included highway and road maintenance, street lighting, and general government support. The Town's disbursements for all funds in 2011 totaled approximately \$744,000.

The Town Supervisor (Supervisor) is both the Chief Executive Officer and the Chief Financial Officer, while the Town Board (Board) is the legislative and policy-setting body of the Town. A new Supervisor began his term on January 1, 2012. The former Supervisor used off-the-shelf accounting software to maintain the Town's financial records. The new Supervisor hired a bookkeeper who uses the same software.

Objective

The objective of our audit was to review the Town's financial operations. Our audit addressed the following related questions:

- Did the Board ensure that the former Supervisor maintained adequate, timely and accurate accounting records and reports, and were these records audited annually by the Board?
- Did the Board approve all payments prior to being disbursed?

Scope and Methodology

We examined the records, reports and cash disbursements of the Town for the period January 1, 2010 to November 28, 2011. We extended our review back to 2004 to determine if the former Supervisor had filed annual financial reports.

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.

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.

Records and Reports

The Supervisor is responsible for maintaining the financial records of the Town and for providing monthly reports to the Board summarizing financial activities. The accounting records should be accurate and complete, and bank balances should be reconciled to the accounting records each month. The Supervisor's monthly reports should include all receipts, disbursements and cash balances to enhance the Board's ability to oversee financial activities. The Supervisor is required to file an annual financial report each year, and the Board is required to audit the Supervisor's records and reports within 20 days of the close of each fiscal year.

The former Supervisor incorrectly recorded expenditures as assets and prepared bank reconciliations that had cash differences up to \$50,000. In addition, he recorded liabilities, outstanding checks and deposits in transit totaling \$255,000² that were not substantiated. He also prepared monthly reports that did not include cash balances and did not file annual financial reports since 2004. Furthermore, the Board did not audit his records and reports for 2010 until December 2011, and the audit did not include revenues or cash balances. As a result, the taxpayers have no assurance that the responsibilities of the Supervisor and Board are being fulfilled.

Accounting Records

The Supervisor is responsible for correctly recording financial transactions and for reconciling bank balances to the accounting records to ensure that the accounting records are accurate and complete.

The former Supervisor incorrectly recorded expenditures as assets. As a result, for example, the balance sheet included the court clerk's salary as an asset. He also recorded \$77,841 for accounts payable and \$54,934 for an accrued liability with no documentation to substantiate these liabilities.

Further, the former Supervisor was not always able to complete successful bank reconciliations and failed to pursue the reasons for the differences he identified. We reviewed bank reconciliations for 11 bank accounts over four different months, for a total of 44 reconciliation attempts; nine of these did not reconcile. The differences ranged from \$60 to \$50,000. Moreover, 19 other reconciliations included questionable balances for checks and/or deposits that had yet to clear the bank. For example, a June 2011 reconciliation included

² Accounts payable \$77,841 + accrued liabilities \$54,934 + outstanding checks \$23,890 + deposits in transit \$98,929 = \$255,594

outstanding checks totaling \$23,890 for an account that had less than \$3,300 in 2011 disbursements. Another reconciliation included deposits in transit totaling \$98,929 even though the account had no deposits in the subsequent month. The former Supervisor did not provide support for these outstanding balances.

Due to the condition of the records, we reviewed a sample of 10 payments. Although we found that the payments were for municipal business, the failure to correctly record expenditures, substantiate liabilities and reconcile bank accounts brings the accuracy of the cash balances into question and inhibits the Board's ability to make sound financial decisions.

Financial Reports

It is important for the Supervisor to provide the Board with monthly financial reports that include receipts, disbursements and cash balances. The Supervisor must file an annual financial report with the Office of the State Comptroller (OSC) within 60 days of the close of the fiscal year, and should provide a copy to the Board to provide information to make financial decisions.

The former Supervisor provided the Board with monthly reports that summarized receipts and disbursements but did not include cash balances. If the reports had cash balances, the Board may have detected the errors discussed previously in this report. Also, the former Supervisor did not file annual financial reports with OSC or the Board since 2004.

As a result, the Board was not aware of the financial position or financial activities of the Town. For example, the Board did not know if a new truck purchased in 2011 was financed or purchased with cash. Although we determined that the truck was purchased with cash, one reason for the Board's uncertainty may have been that the former Supervisor incorrectly recorded \$50,000 towards the purchase of the truck in a debt service account. Two Board members told us that they were not aware of the amount of available cash, which limited their ability to determine if financing was appropriate. Our analysis showed the Town had \$953,000 of unrestricted cash as of September 30, 2011.

The Board members' ability to make financial decisions is impaired if they do not know the Town's available cash and outstanding debt. The unrestricted cash balance is enough to finance one and one third of a year's expenses.

Annual Audit

The Board is required to audit the Supervisor's records and reports within 20 days of the close of each fiscal year. It is important for the Board to include an analysis of the amounts received and disbursed, and all records necessary to account for cash and outstanding debt.

The Board members did not audit the former Supervisor's records and reports in a timely manner. The Town Clerk told us that the Board did not examine the records for October and November 2009 until June 2010, and did not audit the records for 2010 until December 2011. Further, the Board's audits were limited to comparing recorded disbursements to canceled checks. Therefore, the audits were not sufficient to detect the errors discussed in this report.³

Board members told us that they lacked the background and training to know what records should be maintained, and the form and content of those records. The former Supervisor told us he had difficulties with the Town's financial software. As of January 2012, the Board authorized the newly elected Supervisor to hire a bookkeeper to maintain the Town's financial records.

Because of the deficiencies identified in this report, the transparency of the Town's business has been inhibited and the taxpayers have no assurance that the responsibilities of the Supervisor and Board are being fulfilled.

Recommendations

1. The Board should ensure the Supervisor properly records expenditures and substantiates the amounts he reports for liabilities and cash.
2. The Board should require the Supervisor to prepare accurate bank reconciliations. The Supervisor should pursue all differences and correct the accounting records in a timely manner.
3. The Board should require the Supervisor to include cash balances in his monthly reports.
4. The Board should ensure that the Supervisor files annual financial reports with OSC and the Board within 60 days of the close of the fiscal year.
5. The Supervisor should reclassify the \$50,000 recorded as debt service for the purchase of the truck as a cash expenditure.
6. The Board should audit the Supervisor's records and reports within 20 days of the close of each fiscal year. The audits should include a verification of the amounts received, cash and outstanding debt.
7. The Board should obtain training from OSC to ensure that its annual audits are effective.⁴

³ See related comments entitled "Accounting Records" and "Financial Reports."

⁴ For further information, see http://www.osc.state.ny.us/localgov/pubs/lgm/fiscal_oversight.pdf issued by OSC.

Cash Disbursements

The Supervisor is assigned by statute all duties relating to the disbursement of money including recordkeeping, custody and signatory authority. The Supervisor can only disburse funds upon the authority of the Board and should present support to the Board for all disbursements he records in the Town's books. Typically, the Board's audit and approval of claims prior to disbursement⁵ and its approval of the terms of employment for Town employees serve as this authority.

The former Supervisor recorded seven checks totaling \$6,300 that did not have adequate supporting documentation. Although the checks were written to vendors that the Town normally conducted business with, the checks did not clear the bank during our audit period. In addition, they were not listed as outstanding on the bank reconciliations, and were not voided and retained on file. The Board does not know if the recorded checks represent accounting errors, voided checks or outstanding checks for improper purposes. Also, nearly \$6,000 in bank fees were drawn from Town bank accounts without the Board's knowledge or approval. These fees were for analysis reports of bank activity that the former Supervisor had received. The Board should evaluate the usefulness of these reports given the cost of this service.

The Board was unaware of this activity because it did not establish procedures to ensure that the former Supervisor presented all disbursements to the Board for approval prior to payment. As a result, there is an increased risk that errors, irregularities or unreasonable charges can occur.

Recommendations

8. The Supervisor should not disburse money without prior Board approval.
9. The Board should determine the status of the checks recorded in the accounting records and verify their legitimacy in the event they represent actual expenditures.
10. The Board should evaluate the usefulness of the bank analysis reports given the cost of this service.
11. The Board should establish procedures to ensure that the Supervisor presents all disbursements to the Board for approval prior to payment.

⁵ Town Law provides for exceptions to this requirement.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Town of Plainfield

129 County Highway 18A
West Winfield, NY 13491-3719
(315) 855-7873

The Town of Plainfield Board agrees with the findings of the audit of 2012 and has taken the steps necessary to correct any problems or shortcomings.

This audit response is also serving as the cap.

John Twomey Town of Plainfield Supervisor


Audit Recommendations and the Plainfield Town Board Responses.

- 1. The Board should ensure the Supervisor properly records expenditures and substantiates the amounts he reports for liabilities and cash.**

The Plainfield Town Board has hired a professional bookkeeper. The bookkeeper generates monthly reports, which the Plainfield Town Board reviews at the regular monthly Plainfield Town Board meetings.

- 2. The Board should require the Supervisor to prepare accurate bank reconciliations. The Supervisor should pursue all differences and correct the accounting records in a timely manner.**

The bookkeeper is present on a weekly basis and reconciles all of the Plainfield Supervisor's bank accounts on a monthly basis.

- 3. The Board should require the Supervisor to include cash balances in his monthly reports.**

The bookkeeper is now generating reports with cash balances for the Plainfield Town Board to review.

- 4. The Board should ensure that the Supervisor files annual financial reports with OSC and the Board within 60 days of the close of the fiscal year.**

Repeated requests for help with the annual financial reports by the former and present Town of Plainfield Supervisors were met with no response. Past annual financial reports were not filed, and future annual financial reports will be difficult to file without appropriate and meaningful aid. The Plainfield Town Board requests information on what benefit the town receives from the annual financial report being filed since this will probably cost the town a considerable amount to achieve.

See Note 1 Page 16

- 5. The Supervisor should reclassify the \$50,000 recorded as debt service for the purchase of the truck as a cash expenditure.**

This has been corrected by the bookkeeper. .

- 6. The Board should audit the Supervisor's records and reports within 20 days of the close of each fiscal year. The audits should include a verification of the amounts received, cash and outstanding debt.**

The Plainfield Town Board is currently doing this on a monthly basis and will do one at the end of the current fiscal year.

- 7. The Board should obtain training from OSC to ensure that its annual audits are effective.**

The Plainfield Town Board will consider training,

- 8. The Supervisor should not disburse money without prior Board approval.**

The Plainfield Town Board has approved the Town of Plainfield Supervisor to pay normal and regular monthly bills. However large, abnormal disbursements must have prior Plainfield Town Board approval.

- 9. The Board should determine the status of the checks recorded in the accounting records and verify their legitimacy in the event they represent actual expenditures.**

This is included in the monthly Town of Plainfield Supervisor's report and reviewed at the regular Town of Plainfield Board meeting.

- 10. The Board should evaluate the usefulness of the bank analysis reports given the cost of this service.**

The Plainfield Town Board has reviewed the fees from Bank of America and have recently changed to NBT Bank.

- 11. The Board should establish procedures to ensure that the Supervisor presents all disbursements to the Board for approval prior to payment.**

This policy is now in place.

JOHN TWOMEY TOWN OF PLAINFIELD SUPERVISOR


APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

Office of the State Comptroller staff members assisted the previous Supervisor with the filing of the Town's annual financial report for 2004. In subsequent years, the Supervisor did not file annual financial reports because the Town's records were incomplete and did not reconcile. More recently, the current Town Supervisor contacted our office in need of more direct assistance in filing delinquent annual financial reports. Although we can provide Town officials with assistance in electronically filing their annual financial reports, the condition of the records would have required us to determine the account balances, which would have violated our standards for maintaining independence as auditors. Town officials have recently hired a bookkeeper who is in the process of correcting deficiencies in the records and reconciling the books. We have offered our assistance in filing the 2011 annual financial report when the records are current and include the balances as determined by the bookkeeper and Supervisor.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

We interviewed Town officials and employees and reviewed Town minutes, policies and procedures to obtain an understanding of the Town's operations. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected records, reports and cash disbursements for further testing. Our procedures included the following:

- We interviewed Town officials and reviewed accounting records to gain an understanding of controls over accounting records and disbursements.
- We selected every 10th trial balance account in a non-biased manner until we reached a sample of 10 and reviewed the supporting documentation to determine if the reported balances were accurate.
- We reviewed bank reconciliations for four months (two in both 2010 and 2011), selected in a non-biased manner, to determine if they were completed properly.
- We reviewed 10 canceled checks and supporting documentation for high-risk vendors to determine if the payments were for municipal business.
- We reviewed the Supervisor's monthly reports to assess their completeness.
- We reviewed the Office of the State Comptroller's databases to determine if the former Supervisor had filed annual financial reports.
- We traced 100 percent of electronic bank transfers to determine if they were transfers to other Town bank accounts or were for legitimate transactions.
- We reviewed 100 percent of bank statements to identify breaks in the check sequence order. For all breaks, we determined if missing checks were voided and kept on file.

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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