



# Town of Davenport

## Financial Operations

### Report of Examination

Period Covered:

January 1, 2011 — October 3, 2012

2013M-62



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
<b>FINANCIAL OPERATIONS</b>	5
Cash Receipts and Disbursements	5
Financial Reports	7
Recommendations	8
<b>APPENDIX A</b> Response From Local Officials	9
<b>APPENDIX B</b> OSC Comment on the Town's Response	12
<b>APPENDIX C</b> Audit Methodology and Standards	13
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	15
<b>APPENDIX E</b> Local Regional Office Listing	16

# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

May 2013

Dear Local 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 Davenport 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*

# Introduction

## Background

The Town of Davenport (Town) is located in the County of Delaware and has 2,965 residents. The Town provides various services to its residents, including general government services, highway maintenance, and water distribution. The Town's annual budget for the 2013 fiscal year is \$1,143,925. Town expenditures are financed primarily by real property and sales taxes.

An elected five-member Town Board (Board), comprising the Town Supervisor (Supervisor), and four Council members, governs the Town. The Board adopts and sets policies and appropriates funds for various governmental functions and services. The Supervisor serves as the Town's chief executive officer and is responsible for the Town's day-to-day management. Other Town officials include a Town Clerk, a Town Assessor, a Town Code Enforcement Officer, and a Town Justice. The Supervisor is also the Town's chief financial officer and is responsible, along with the Board, for the Town's financial operations.

## Objective

The objective of our audit was to determine whether Town officials have established adequate controls over financial operations and reporting. Our audit addressed the following related question:

- Did the Supervisor properly control cash receipts and disbursements and provide for complete and accurate reporting of the Town's financial information?

## Scope and Methodology

We examined the Town's financial operations, including various accounting records and reports, for the period January 1, 2011, to October 3, 2012. We also conducted in-person interviews with various Town officials and staff members.

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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue raised in the Town's response letter.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our Office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

## Financial Operations

The Supervisor is primarily responsible for managing the Town's financial operations, including safeguarding Town resources and maintaining accurate and complete accounting records. However, we identified discrepancies totaling \$4,800 in the Supervisor's cash receipt records and found that the Supervisor paid claims totaling \$54,000 that had not been reviewed and approved by the Board. The Supervisor also provided inadequate financial information to the Board and failed to file the Town's annual financial report with the Office of the State Comptroller (OSC), as required.

These problems occurred because the Board has not provided appropriate oversight and the Supervisor did not properly segregate financial duties. For example, the Supervisor collected water rents and permit fees instead of having the collections done by the Town Clerk and the recordkeeping by the Supervisor. The Supervisor authorized Town payments, maintained Town financial records, and collected and deposited Town moneys. As a result of these control weaknesses, taxpayers have no assurance that all money received is deposited and properly recorded, and that disbursements are made for proper Town purposes. Further, because Board members did not request cash receipt and disbursement data or conduct an annual audit of the Supervisor's records, they did not identify the above discrepancies or realize that the Town had not filed its annual report with the OSC. Unless the Town improves controls over financial operations, there is significant risk that fraud or abuse could occur and not be detected.

### Cash Receipts and Disbursements

As chief financial officer, the Supervisor is responsible for maintaining adequate accounting records that consist of journals, ledgers, and other financial documents that provide an accurate accounting of the Town's financial transactions, including cash receipts and disbursements. However, we found discrepancies totaling \$4,800 in the Supervisor's records. Neither the Supervisor nor the Board was aware of these discrepancies because no one oversees the Supervisor's management of Town financial activities.

A basic tenet of internal controls is the segregation of financial duties so that no one person controls all the aspects of financial transactions. If the critical duties of payment authorization, asset custody, and recordkeeping are not separated, there is a risk that errors or improper payments could occur and not be detected. If duty segregation is not feasible, the Board can compensate for this control weakness by increasing its oversight of financial activities.

We found that the Supervisor performs most aspects of the Town's financial and recordkeeping duties with no oversight by the Board. The Supervisor's duties include receiving and disbursing all Town moneys, preparing water bills and collecting water receipts, maintaining Town financial records using an accounting software program, and depositing and withdrawing Town funds at the bank. The Supervisor's wife, who is not a Town employee, also maintains manual records of receipts and disbursements. According to the Supervisor, his wife maintains these records for the sole purpose of reconciling the bank statements for all Town accounts.

The Supervisor also receives, records, and deposits permit fee revenues. When the Town Clerk collects permit payments, she manually records the receipt of the fees in a notebook.<sup>1</sup> The Town Code Enforcement Officer who issues the permits also maintains a detailed list of all permits he issues, along with the fees collected for each permit. The Town Clerk told us that she handed the monthly collections of permit fee revenue to the Supervisor for deposit.

We tested 34 receipts totaling more than \$500,000 from a variety of sources (e.g., real property taxes, water bills, permit fees) by tracing them from Town records to the Town bank accounts to ensure amounts collected were properly deposited. We could not verify that \$4,800 in water and code enforcement revenues were deposited because the Supervisor had included receipts from more than one source on a single deposit slip without providing the necessary detail of the origin of each receipt. This practice made it difficult to trace the source of the revenue that makes up a deposit. In addition, the Supervisor indicated that he has not always recorded everything in his accounting software.

The discrepancies were not detected because neither the Board nor any other Town official performed financial duties or reviewed the Supervisor's records. Board members told us that they thought the Supervisor was very honest and trustworthy, so they did not feel the need to oversee the Town's finances. Board members did not understand the risks created when one Town official performs all the financial duties without oversight by another Town official. During our audit, duties were reassigned so that the Town Clerk, who now collects the permit fees, will maintain a complete record of the permit fees she collected during the month and provide this record in a monthly report to the Supervisor. However, the Supervisor still collects water rents, so the lack of segregation of duties regarding collecting and recording receipts has not been fully corrected.

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<sup>1</sup> Cursory review of the Town Clerk's notebook revealed that receipt of money was not always recorded. Therefore, it was not an adequate source for our testing.

It is also important that the Board review claims against the Town to ensure they represent legitimate Town expenditures. The Supervisor should present all claims to the Board for audit and approval before paying them. The minutes should reflect the claims numbers and total amounts of the vouchers audited by the Board. We reviewed 277 disbursements totaling almost \$343,000 and found that the Supervisor paid 33 claims totaling \$54,000 without any evidence of Board approval. These disbursements were recorded in the financial records and appear to be for legitimate<sup>2</sup> Town expenditures. We found no exceptions with the claims that were audited by the Board. However, it is essential that the Board audit and approve claims before they are paid to reduce the risk of inappropriate payments.

## **Financial Reports**

It is the Supervisor's responsibility to report complete and accurate financial information to the Board so Board members have the data they need to govern the Town. However, we found that the monthly reports the Supervisor provides to the Board are incomplete and do not contain enough detail to allow the Board to make sound financial decisions. We reviewed the reports provided to the Board and found that they do not report on water fund activity at all. Furthermore, monthly reports provide only year-to-date budget-to-actual comparisons in the general and highway funds; they do not include cash receipts and disbursements from the previous month's activities or balances in bank accounts for these two funds.

The Supervisor said he did not recognize that the reports he provided to the Board were incomplete. Board members also told us they were pleased with the information they received and did not recognize the value of receiving more details. The Supervisor told us he plans to provide more detail for future reports.

The Board is also required to annually audit, or cause to be audited, the Supervisor's books and records. This periodic audit of the Town's financial records can provide Board members with an understanding of the Town's finances that is essential to effective oversight. The Supervisor told us that he recognized that the Board should have been conducting an annual audit. He explained that he had provided Board members resources for conducting such an audit. However, Board members had not conducted annual audits because they did not believe they were necessary.

Finally, the Supervisor is responsible for filing the Town's annual financial report with OSC no later than 60 days after the close of the

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<sup>2</sup> Disbursements were for such things as utilities, payments to the Justice Court Fund, the Town credit card, the Supervisor and Town Clerk, newspaper advertisements, insurance, equipment/building repairs, and supplies.

Town's fiscal year. However, the Supervisor did not file the Town's annual financial report for either 2010 or 2011. The Supervisor told us that he tried to file the report for 2010 but was not successful; he said he would begin the 2011 report once he has completed the 2010 submission. Board members did not realize that these reports were not submitted because they do not monitor the Supervisor's performance.

## **Recommendations**

1. The Supervisor should segregate incompatible duties related to cash receipt and disbursement functions. If duty segregation is not feasible, the Board can compensate for this control weakness by increasing its oversight of financial activities. The Supervisor should account for the discrepancies we identified in permit fee revenues. The Supervisor should also maintain his records in such a way as to provide an adequate audit trail.
2. The Board and the Supervisor should ensure that all claim vouchers are presented to the Board for audit and approval and that all such claims appear on an abstract.
3. The Supervisor should ensure that he provides complete, accurate, and up-to-date financial records to the Board.
4. The Board should annually audit the Supervisor's records, as required.
5. The Supervisor should file annual financial reports with OSC 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 attachments that support the response letter. We have not included the attachments in our report because the Town's response is adequate to address its concerns on the issue.

**TOWN OF DAVENPORT  
DELAWARE COUNTY  
SUPERVISOR DENNIS VALENTE**

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11790 State Highway 23, P.O.Box 88, Davenport Center, NY 13751-0088  
Phone (607) 278.5600 Fax (607) 278.5600 denvale@yahoo.com

Audit 2013M-62 Combined Audit Response and Corrective Action Plan  
Plus 2 attachments from Supervisor's Books  
4/30/13

Many good procedures were learned as a result of this Audit.

First, the Board must correct the impression that the Supervisor's "books" do not reconcile with the Code officer's records.

FY 2011 the 12/31 Supervisor's Report (books) show \$8,720.50 v. Code's Report of \$7,889. Likewise FY 2012 Supervisor \$8,428.72 v. Code \$9,205. A difference of \$55.12. The discrepancies noted in this audit were in matching the evolving check register and the Code's book. However Supervisor's books were in agreement with Code. These documents were presented to the Board in a timely manner and attached to this reply.

See  
Note 1  
Page 12

The Bookkeeper for the Supervisor keeps the check registers and does the monthly bank reconciliations of deposits and disbursements. This set of registers contains all the usual essential elements for a check register and have evolved, over the course of experience, some additional information. The account charged with the deposit is now noted but is not intended to replace the accounting function of the Supervisor's book. The Supervisor maintains the books containing accounts to match the budget, for the purpose of reporting to the Board.

The Code Officer keeps his record of permits and records fees to be collected. The Town Clerk collects these fees and submits them to the Supervisor after recording the transaction in her cash book.

The misunderstanding in the Audit points out a need for better synchronization and timing of these functions for the purpose of auditing.

\* All three reports are now done every month, regardless of the level of activity. A Board member will be assigned to compare these. The money is now being deposited into the Town Clerk's account and disbursed to the Supervisor with the other Clerk proceeds and shown on the Monthly Clerk's Report.

\* Reconciliation between the Supervisor's Book and the bank statements (a process that had been done quarterly) is being done on a regular monthly basis. The nature of a deposit will now be required in the Bookkeeper's Bank Registers.

The Supervisor was under the impression that the Abstract of Claims was for disbursements in need of Board approval. Items such as Health Insurance (mandated by contract approved by the Board), disbursements to the Justice Fund (amounts submitted to the Board in the court report) and training (pre-approved by the Board) were not usually on the Claims.

\*The Supervisor has been instructed that all disbursements are to appear on the Claims and they now are.

\*The Water District reporting will also be corrected here.

The Town Board needs more step by step instruction on how to go about the monthly audit. The Supervisor is the only officer on the Board with college level instruction in accounting, and that was business accounting. The Supervisor and other Board members have attended Association of Towns sponsored training offered by the OSC. The emphasis seems more based on general responsibilities and less on how-to practical function. We ask the OSC to be more mindful of the fact that rural Towns, like Davenport, do not have, and cannot afford, professional staff.

We ask the training division to revisit efforts to partner with Towns with more step by step training so that public service minded elected officials can, from various 'walks of life', manage and provide accounting for public funds.

\* Some very useful and effective processes were observed and learned during this audit. Most important, but not limited to, is the separation of duties among the 5 Board Members. Each member will take a specific assignment in a team effort to provide a comprehensive monthly review.

The Supervisor believes that his primary responsibility is to report to the Taxpayers and Town Board on the financial activity of the Town. A complete financial report is presented to the Board and Town verbally and in writing at the January Organizational meeting, as well as regular monthly reports.

When the Supervisor took office in 2006 the Town had two older computers in service. Now every officer has acquired their own. Use of a computer for interacting with the State has gone from optional to mostly mandatory.

The hang-up in the submission of the Annual Update Document is founded in this learning curve.

\* The Board has agreed to allocate funds for professional assistance to bring the Town into compliance with this requirement of the OSC.

Dennis J. Valente, Supervisor Town of Davenport

## **APPENDIX B**

### **OSC COMMENT ON THE TOWN'S RESPONSE**

#### Note 1

We have amended our report to clarify that our focus was on the inability to verify that all water and code enforcement revenues were actually deposited because the deposit slip lacked the detail necessary to determine the composition of the receipts being deposited. We commend Town officials for recognizing the importance of identifying the nature of future deposits in the bookkeeper's bank registers.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine the Town's financial operations to ensure that cash receipts and disbursements were properly controlled and financial activity was accurately reported. To accomplish the objective of this audit and obtain valid evidence, our audit procedures included the following:

- We conducted in-person interviews with Town officials and staff members to gain an understanding of the procedures followed regarding cash receipts and disbursements, what and when financial reports were provided to the Board, and what, if any, oversight was provided to the Supervisor.
- We obtained reports of cash receipts from OSC, Delaware County, the Town Justice, the Town Clerk, and the Town Code Enforcement Officer and traced those receipts from the reports provided to us to Town bank accounts and to manual and computerized records to ensure amounts collected were deposited timely and intact, and were recorded in both manual and computerized records.
- We obtained total real property tax levies from adopted budgets and penalties paid to the Supervisor in 2011 and 2012 and traced them to Town bank accounts and financial records to ensure amounts collected were deposited intact and in a timely manner and were recorded in both manual and computerized records.
- We obtained the water district budget and calculated what billing amounts should be, based on the number of units per the manual records and the engineer's report, and traced amounts calculated to water bills to ensure that amounts billed agreed with what our calculation indicated users should be billed.
- We traced amounts received for water bills from the manual ledger to users' accounts in the computerized records and to Town bank accounts to ensure that amounts collected were deposited intact and in a timely manner and were recorded in the computerized records.
- We traced disbursements from the cleared check images to Board-approved abstracts and the computerized financial records to ensure that all disbursements were audited and reviewed by the Board prior to being made and to ensure that they appeared in the computerized records.
- We traced disbursements from the Board-approved abstracts to cleared check images and the computerized records to ensure that disbursements were made for only Board audited and approved claims prior to checks being sent to vendors and that they appeared in the computerized records.
- We traced bank wires from bank statements to supporting documentation to ensure that wire transfers were for legitimate Town expenditures.

- We reviewed monthly financial reports presented to the Board to determine if they were provided in a timely manner and complete for Board members to make sound financial decisions.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX D

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