



Town of Stockport

Disbursements

Report of Examination

Period Covered:

January 1, 2012 — January 22, 2013

2013M-216



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2013

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 Stockport, entitled Disbursements. 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 Stockport (Town) is located in Columbia County and has a population of 2,815. The Town is governed by an elected five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general oversight and control of the Town's operations and finances. The Supervisor, as the chief fiscal officer, is responsible for maintaining accounting records and providing monthly reports to the Board.

The Town provides various services to its residents including street and road maintenance, snow removal, street lighting, water distribution, sewage treatment, and general government support. The general and highway funds' adopted budgets for the 2013 fiscal year are \$433,291 and \$509,851, respectively, which are funded mainly through real property taxes, sales tax, and State aid.

Objective

The objective of our audit was to determine whether the Board properly monitored the Town's disbursements. Our audit addressed the following question:

- Were disbursements accurately accounted for and legitimate Town expenditures?

Scope and Methodology

We examined selected cash disbursements for the period January 1, 2012, to January 22, 2013.

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 recommendation have been discussed with Town officials and their comments, which appear in Appendix B, have been considered in preparing this report. Town officials generally agreed with our findings and included their corrective action plan as a part of their response.

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.

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 being lost, stolen, or used for inappropriate purposes. Town Law provides a level of control by separating certain cash disbursements duties between the Clerk, Board, and the Supervisor, and requires the Board to audit all claims prior to payment to ensure that disbursements are properly authorized, supported by sufficient documentation, and for goods/services that were actually received by or rendered to the Town.

The Supervisor should ensure that no claims are paid unless they are approved for payment by the Board. After claims have been audited and approved for payment, the Clerk prepares an abstract of audited claims.¹ The abstract also contains a warrant or order directing the Supervisor to pay the amounts allowed upon the claim. The Board may, by resolution, authorize the payment in advance of audit of claims for public utility services, postage, freight, and express charges. In addition, it is important that the Supervisor provides proper oversight and maintains custody of blank check stock, or implements a system in which all checks are properly accounted for.

The system of controls implemented by the Board generally operated effectively. We reviewed the check sequence within and between all abstracts issued from January 1, 2012, through December 31, 2012, to ensure the check sequence was complete and all checks were accounted for. Five out of 674 checks totaling \$6,257 were issued and paid but were not on abstracts, and the Town could not account for five checks. These five unaccounted for checks were not listed on any abstracts and were not paid. However, they were not identified as voided checks.

Although the Board has an effective system to audit and approve claims that are presented for payment, it was standard practice for the Supervisor to pay some claims that had not been presented to the Board for approval, such as for inter-municipal payments. Therefore, the Clerk did not put them on the abstracts. However, the five checks in question were for propane, t-shirts for the recreation department, a service agreement for water department hand held devices, association fees for the Clerk, and food used on the Town's community day. Such payments are not allowed by law to be paid prior to audit.

¹. An abstract of the audited claims specifies the number of the claim, the name of the claimant, the amount allowed, the fund and appropriation account chargeable, and other necessary information.

The Board did not have an adequate system that would detect payments made by the Supervisor that had not been approved by the Board. A system that included an independent check log would have detected checks that were not on the abstracts. Furthermore, the Supervisor did not control the blank check stock. The five unaccounted for checks were not detected because the blank check stock was maintained off-site and used by the previous accountant.

In addition, we tested a random sample of 40 out of 674 vouchers totaling \$31,430 to determine if they were listed on the abstracts and contained appropriate supporting documentation, and if the Board properly approved them for payment. All vouchers tested had proper Board approval and adequate documentation to support that the disbursements were proper and reasonable.

We reviewed all bank statements for our audit period to identify electronic disbursements, including such items as wire transfers or payments made using an automated clearing house.² We identified 19 electronic disbursements totaling \$404,906 and confirmed the charges were for proper Town purposes. We also randomly selected the months of March and May of 2012 and traced all payroll payments totaling \$58,459 to 34 Town employees on the Town employee listing to determine if payments were made to valid Town employees. We found no exceptions with these payments.

Although we found limited exceptions with our testing, the Supervisor's payment of claims without evidence of Board approval and inclusion on the abstract is not allowed by Town Law, circumvents the system of checks and balances associated with segregation of duties, and could have resulted in a misuse of funds.

Recommendation

1. The Supervisor should ensure all check numbers are accounted for and all checks issued are listed on abstracts and approved by the Board.

² Most common form used when outside entities take payments directly out of the user accounts based on the use of routing and account numbers

APPENDIX A

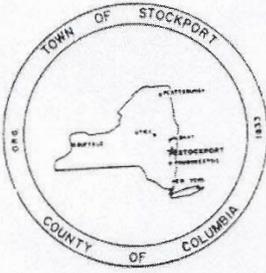
TAXPAYER COMPLAINT

In November 2012, our office received multiple complaints and a signed petition requesting an audit of the Town. The request was based on the belief that \$250,000 of fund balance was unaccounted for and \$100,000 was missing or misplaced in the water fund. The belief that money might be missing came during the 2013 budget process when the Town's newly-hired independent auditor stated he was not sure the fund balance existed and warned Town officials against using fund balance going forward until he finished his work.

We met with the independent auditor after he finished his review and learned that the \$250,000 and \$100,000 were accounted for and were not missing. We reviewed the work performed by the independent auditor to ensure the moneys were accounted for. Based on our review of the independent audit work, we determined that additional audit work in this area was not warranted.

APPENDIX B
RESPONSE FROM LOCAL OFFICIALS

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



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COLUMBIA COUNTY
NEW YORK

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September 19, 2013

Ms. Tenneh Blamah
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New York State Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

RE: Town of Stockport Report of Examination (2013M-216)

Dear Ms. Blamah,

The following is the Town of Stockport's response to the audit recently completed by your office. The Town concurs with the NYS Office of State Comptrollers Audit findings and recommendations.

The Town will also submit the following Corrective Action Plan which has all been implemented in 2012.

- Starting in July of 2012, (this coincides with the hiring of a new accounting firm and in house bookkeeper) all Town records and checks are secured at the Town Hall and are accounted for.
- All bills received now require a voucher and approval by the majority of the Town Board in order to be paid.
- If a bill is paid in advance to avoid penalties to National Grid, the Office of Court Administration or other government agencies the bills and vouchers would be reviewed and approved by the Town Board even after payment.
- All financial information is shared with the Town Board including monthly bank statement balances and abstracts.

If you have any questions, please contact this office.

Sincerely,

Matt B. Murell
Supervisor

Cc: Town Board

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

We assessed internal controls over the Town's cash disbursements for the period January 1, 2012, to January 22, 2013. To accomplish our audit objective and obtain valid and relevant audit evidence, we performed the following procedures:

- We interviewed Town officials and reviewed Board minutes and relevant financial records, such as Board approved payment vouchers, abstracts, bank statements, and payroll registers.
- We reviewed abstracts for the audit period to identify check sequence number integrity and reviewed checks not listed on abstracts to determine if they were either for proper Town expenditures or voided.
- We selected a random sample of 40 payment vouchers totaling \$31,430 to determine if they were listed on abstracts for that month, were properly approved, were legitimate Town expenditures, and whether canceled check images were consistent with vouchers.
- We reviewed all bank statements for our audit period to identify non-check disbursements;³ we also examined documentation for non-check disbursements totaling \$404,906 and confirmed the charges were for proper Town purposes.
- We traced all payroll payments made in March and May of 2012 totaling \$58,459 to 34 Town employees on the Town employee listing to determine if payments were made to valid Town employees.

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.

³ Non-check disbursements include electronic transfers between accounts, outgoing wire transfers, and miscellaneous debits and charges to bank accounts for payments to the Internal Revenue Service and New York State retirement system.

APPENDIX D

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