



Town of Chesterfield

Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

January 1, 2013 — July 31, 2014

2014M-331



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2015

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 Chesterfield, entitled Internal Controls Over Selected 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 New York State 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 Chesterfield (Town) is governed by an elected five-member Town Board (Board), which comprises the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town moneys, maintaining accounting records and providing financial reports to the Board. The Town's budgeted appropriations for the 2014 fiscal year were approximately \$1.8 million, funded primarily with real property taxes and water charges.

Scope and Objective

The objective of our audit was to review the financial operations of the Port Kent Water District 1 (water district) and internal controls over the Tax Collector's (Collector) financial activities for the period January 1, 2013 through July 31, 2014. We expanded the scope period back to January 1, 2012 for our review of the accounting records and budgeting for the water district and back to January 1, 2010 for our review of the Collector's remittance of interest and penalties to the Supervisor. Our audit addressed the following related questions:

- Does the Board adopt realistic budgets and adequately oversee the financial operations of the water district?
- Are internal controls over the Collector's financial activities appropriately designed and operating effectively to adequately safeguard Town assets?

Audit Results

The Board has not provided effective oversight of the water district's financial operations. Poor management oversight has contributed to the water district's accounting records being incomplete and inaccurate. As a result, the Board was not aware of the water district's actual operating results and overall financial condition. In addition, the Board did not adopt realistic budgets and did not properly monitor the water district's financial operations throughout the year. Consequently, the water district realized significant operating deficits of \$24,785 and \$43,473 for 2012 and 2013, and we project that it will realize a significant operating deficit of approximately \$61,600 for 2014. In June 2014, the town-wide general fund made an interfund advance of \$30,410 to the water district so that it could pay its operating expenses. However, we project that the water district will end the 2014 fiscal year with a cash balance of approximately \$6,100 and, therefore, will not be able to repay the interfund advance by the close of the fiscal year as required.

We also identified significant internal control weaknesses over the billing, collection and enforcement of water charges, which were largely due to lack of segregation of duties and sufficient oversight. For example, the Board did not receive or approve the water billing registers, adjustments were made to customer accounts without approval, penalties were only being assessed to delinquent accounts at the end of the collection period when they were re-levied and all delinquent accounts were not properly re-levied. As a result, the Town did not realize all potential revenues and did not properly enforce all delinquent accounts.

There were also significant internal control weaknesses over the Collector's financial activities. For example, the Collector did not maintain adequate, accurate and complete records and did not assess penalties to all tax payments that were received after the due date. In addition, the Collector did not physically secure tax collections prior to deposit and did not deposit collections in a timely manner and intact. Furthermore, the Collector did not refund overpayments in a timely manner and did not remit interest and penalties to the Supervisor in a timely manner or in the appropriate amounts. We also found that the Board did not audit the Collector's records as required. Consequently, the Town did not realize all potential revenues for penalties. In addition, as of July 31, 2014, the Collector had a cash shortage of at least \$1,053, which resulted in the Collector not being able to disburse a \$350 refund check for an overpayment or remit \$1,010 in interest and penalties that were owed to the Supervisor.

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 initiate corrective action.

Introduction

Background

The Town of Chesterfield (Town) is located in Essex County and had a population as of the 2010 Census of 2,445 residents. The Town is governed by an elected five-member Town Board (Board), which comprises the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town moneys; maintaining accounting records; and providing financial reports to the Board.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, public improvements, recreation and cultural activities, water and general governmental support. The Town's budgeted appropriations for the 2014 fiscal year were approximately \$1.8 million, funded primarily with real property taxes and water charges.

The Port Kent water district 1 (water district) provides service to approximately 140 customers. The Town's budgeted appropriations for the water district for the 2014 fiscal year were \$82,800, which were funded with water charges. The Town employs a Clerk to the Supervisor (Clerk), who works under the Supervisor's direction and is responsible for the billing, collection and enforcement of water charges for the water district.

The Town's elected Tax Collector (Collector) is responsible for collecting real property taxes pursuant to tax warrants provided from Essex County. The warrants direct the Collector to collect taxes for the Town and County and remit the tax collections to the Supervisor and County Treasurer. The Collector was responsible for collecting taxes totaling approximately \$2.3 million and \$2.4 million during the 2013 and 2014 fiscal years, respectively.

Objective

The objective of our audit was to review the financial operations of the water district and internal controls over the Collector's financial activities. Our audit addressed the following related questions:

- Does the Board adopt realistic budgets and adequately oversee the financial operations of the water district?
- Are internal controls over the Collector's financial activities appropriately designed and operating effectively to adequately safeguard Town assets?

**Scope and
Methodology**

We reviewed the financial operations of the water district and internal controls over the Collector’s financial activities for the period January 1, 2013 through July 31, 2014. We expanded the scope period back to January 1, 2012 for our review of the accounting records and budgeting for the water district, and back to January 1, 2010 for our review of the Collector’s remittance of interest and penalties to the Supervisor.

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 is included in Appendix B 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. Town officials generally agreed with our recommendations and indicated they planned to initiate 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 Town Clerk’s office.

Port Kent Water District 1

The Board is responsible for the financial planning and management necessary to maintain the water district's fiscal health. To maintain good fiscal health, it is imperative that the Board receive timely and accurate financial information, develop and adopt budgets that include realistic estimates for revenues and expenditures and identify and adjust to changes in the planned amount of revenues and expenditures during the course of the year. In addition, an effective system of internal controls over water district charges includes policies and procedures to ensure that all moneys received are properly recorded, deposited and accounted for. The Board also must provide sufficient oversight over employees involved in the billing, collection and enforcement of water charges.

The Board has not provided effective oversight of the water district's financial operations, which has contributed to the water district's accounting records being incomplete and inaccurate. As a result, the Board was not aware of the water district's actual operating results and overall financial condition. In addition, the Board did not adopt realistic budgets and did not properly monitor the water district's financial operations throughout the year. Consequently, the water district realized significant operating deficits of \$24,785 for 2012, \$43,473 for 2013 and a projected amount of \$61,600 for 2014. In June 2014, the town-wide general fund made a \$30,410 interfund advance to the water district so that it could pay its operating expenses. We project that the water district will not be able to repay this interfund advance by the close of the fiscal year as required.

We also found that the Board did not receive or approve the water billing registers, adjustments were made to customer accounts without approval, penalties were only being assessed to delinquent accounts at the end of the collection period when they were re-levied, and all delinquent accounts were not properly re-levied. As a result, the Town did not realize all potential revenues and did not properly enforce all delinquent accounts.

Financial Oversight

The water district's financial data must be accurate to properly manage operations and assess its financial condition. In addition, it is important for the Board to adopt realistic budgets that provide sufficient revenues to finance recurring expenditures. As such, the Board should determine the annual cost of operations and maintenance for the water district and the anticipated future repairs and improvements. Based on that information, the Board should revise, if necessary, rates for water charges to generate sufficient revenues to pay the total

costs necessary to properly operate and maintain the facilities and service lines. The adopted budget is a plan, subject to modifications when appropriate, that provides Town officials with the information necessary to control spending and ensure revenue projections are being met during the year. Effective management includes monitoring the budget during the course of the year by reviewing monthly budget status reports and making any necessary budgetary amendments due to unforeseen revenue shortfalls or incurring costs that will exceed the appropriations provided for in the adopted budget.

General Municipal Law (GML) allows the Supervisor to temporarily advance (loan) moneys from one fund to another to alleviate cash flow issues in the fund receiving the loan. However, the Supervisor must maintain suitable records to account for the interfund loans, and the Board must authorize each loan by resolution.

Accounting Records – The Supervisor has assigned accounting duties to the Clerk, but has not provided sufficient oversight to ensure that she maintained complete and accurate accounting records. Consequently, we found deficiencies with the water district’s accounting records during the 2012 through 2014 fiscal years, which included the following:

- The Clerk did not maintain a water receivable control account for water charges billed and collected, resulting in the water district’s rents receivable being understated at year-end by \$18,348 for 2012 and \$13,464 for 2013.
- The Clerk did not record a \$30,410 interfund advance that was made to the water district from the town-wide general fund during 2014 as an interfund liability in the water district, resulting in the water district’s liabilities being understated by this amount.
- Because the Clerk recorded revenues for water charges when they were received instead of when they were billed, revenues were understated by \$5,318 during 2012, overstated by \$4,559 during 2013 and overstated by \$13,464 during 2014.
- Because the Clerk did not record expenditures that were incurred in her subsidiary ledger, expenditures were understated by \$580, \$2,259 and \$7,936 during 2012, 2013 and 2014, respectively.

The Clerk’s inadequate maintenance of the records, along with the Supervisor’s lack of effective oversight over the Clerk, has resulted in the water district’s accounting records being incomplete

and inaccurate. This has prevented the Board from having reliable financial data to monitor the water district's financial activity and make informed financial decisions.

Budgeting, Monitoring and Operating Results – The Board did not adopt realistic water district budgets during 2012 and 2013 because it significantly underestimated expenditures. Specifically, expenditures exceeded total budget appropriations during 2012 and 2013 by \$26,922 (34 percent) and \$62,789 (80 percent), respectively. This predominately resulted because water administration contractual expenditures were underestimated during 2012 by \$32,924, and water administration personal services expenditures and water administration contractual expenditures were underestimated during 2013 by \$18,836 and \$38,984, respectively. The revenue estimates in the adopted budgets were in line with the budgets' appropriations. However, because the budget appropriations were not realistic, the water charges did not generate sufficient revenues to cover the actual costs incurred. As a result, the water district realized significant operating deficits of \$24,785 and \$43,473 for 2012 and 2013, respectively.

We also reviewed the adopted 2014 water district budget and found that the budget appropriations were again significantly underestimated. In fact, as of July 31, 2014, expenditures already exceeded total budget appropriations by \$10,296. We project that 2014 expenditures will exceed total budget appropriations by approximately \$61,600 (74 percent). This will predominately result because projected water administration personal services expenditures and water administration contractual expenditures were underestimated by approximately \$16,000 and \$40,000, respectively. Similar to 2012 and 2013, the adopted 2014 budget contains revenue estimates based on the corresponding budget appropriations. However, because the budget appropriations are not realistic, the water charges will not generate sufficient revenues to cover the actual costs incurred. As a result, we project that the water district will realize a significant operating deficit of approximately \$61,600 for 2014. We met with the Supervisor in late September 2014 and informed him of this. However, subsequent to our audit fieldwork, we reviewed the adopted 2015 water district budget and found that the Board did not increase water rates and continued the budgetary practice of underestimating water administration contractual expenditures. Therefore, it is likely that the water district will also incur an operating deficit in 2015.

Figure 1: Budget-to-Actual and Operating Results				
	2012	2013	2014 Projected	Total
Estimated Revenues	\$78,550	\$78,850	\$82,800	\$240,200
Actual Revenues ^a	\$80,687	\$98,166 ^b	\$82,800	\$261,653
Under/(Over) Estimated Revenues	\$2,137	\$19,316	\$0	\$21,453
Appropriations	\$78,550	\$78,850	\$82,800	\$240,200
Actual Expenditures ^a	\$105,472	\$141,639	\$144,434	\$391,545
Over/(Under) Estimated Expenditures	(\$26,922)	(\$62,789)	(\$61,634)	\$151,345
Operating Surplus/(Deficit)	(\$24,785)	(\$43,473)	(\$61,634)	(\$129,892)

^a The actual revenues and expenditures consist of the amounts that were recalculated by the Office of the State Comptroller based on our review of the Town's accounting records.

^b Revenues increased significantly during 2013 because the Town received \$10,431 from a utility company for damage that was done to the water treatment plant due to a power surge and because the Town received two annual payments totaling \$9,600 during 2013 from a customer that it provided untreated water to.

The Board did not receive budget status reports for the water district and, therefore, lacked the information necessary to monitor the water district budget estimates against actual operations and make adjustments to address the unrealistic expenditure estimates. As a result, the Board did not make budget amendments, allowing expenditures to exceed total budget appropriations. This has contributed to the water district's declining cash balance and continued operating deficits. In fact, in June 2014, the town-wide general fund had to make a \$30,410 interfund loan to the water district so that it could pay its operating expenses. The Supervisor made the interfund loan without the Board's approval, which is required by GML. In addition, we project that the water district will end the 2014 fiscal year with a cash balance of approximately \$6,100 and, therefore, will not be able to repay this interfund loan by the close of the fiscal year.

Overall, the Board's budgeting practices and lack of monitoring significantly contributed to the water district's declining cash balance and continued operating deficits during our audit period.

Water Charges

A well-designed system of internal controls over water charges requires that the Board establish policies and procedures that provide guidance and oversight for employees involved in the billing, collection and enforcement of water charges.

The Town did not have comprehensive written policies and procedures to provide adequate guidance and internal controls over water charges, and the Board provided minimal to no oversight. As a result, we identified significant internal control weaknesses in the Town's billing, collection and enforcement procedures for water charges.

Segregation of Duties – It is important that policies and procedures provide for a proper segregation of duties so that a single individual does not control all aspects of a transaction. In instances where adequate segregation is not possible due to a limited number of staff, a detailed supervisory review of employees’ activities could ensure that policies and procedures are properly followed and that cash assets are properly accounted for, accurately reported and adequately protected.

There was a lack of segregation of duties over the billing, collection and enforcement of water charges. The Clerk was responsible for performing all duties related to water charges, which included maintaining the master file of customers, setting up the applicable rate that each customer would be charged, preparing and printing bills, collecting and posting payments, applying penalties to overdue accounts and making adjustments, with limited to no oversight. Concentrating key billing, collection or enforcement duties with one individual weakens internal controls and significantly increases the risk that errors or irregularities could occur and remain undetected.

Billing and Collection – The Board is responsible for establishing rates for all water charges and approving all billings to ensure that users are billed accordingly. In addition, all individual water charges billed should be posted to a receivable control account.¹ To ensure accurate records and detect errors, the control account should be reconciled monthly to the amounts billed, the amounts collected and the remaining unpaid bills. Furthermore, the Board must establish written procedures which address the approval and documentation process for billing adjustments. A designated official should approve each adjustment and adequately document its origination, justification, amount and date approved.

The Town charges a flat rate to customers for water services, which are billed on a quarterly basis. We found that the Board approved the water rates that were being used. However, we found deficiencies with the Town’s billing and collection procedures for water charges. For example, the Board did not receive or approve the water billing registers and, therefore, had no means to ensure that all customers were being properly billed. In fact, the Clerk stated that she does not generate quarterly water billing registers from the billing and collection software for her use in the billing process. In addition, the Clerk did not maintain a control account for water charges billed and collected during our audit period. As a result, the Town did not have a mechanism to reconcile the detail records from the billing and

¹ This control account, typically referred to as water rents receivable, will contain a balance reflecting the total amount of unpaid water billings owed to the Town by customers.

collection software, which increases the likelihood that errors and omissions could occur and remain undetected.

We reviewed a random sample of 50 water billings² totaling \$7,250 to determine if the rates charged agreed with the Board-established rates, the billings were correctly recorded in the customers' accounts, payments equaled the amount billed and the collections of payments were properly recorded in the customers' accounts. We did not identify any significant exceptions. We also compared a random sample of 25 water district parcels³ to the customer accounts within the billing and collection software to determine if customers were being billed for services. We did not identify any discrepancies.

We also reviewed all nine adjustments to water accounts totaling \$13,131 during our audit period and found that none were approved by the Board. In addition, three of the adjustments totaling \$400 were not for appropriate purposes but appeared to be the result of clerical errors made by the Clerk when attempting to correct errors that she had previously made within the customers' accounts. Had we not brought these adjustment errors to the Clerk's attention during our review, the Town would have lost revenues of \$400. The Board's failure to approve adjustments to customer accounts creates the risk that customers may receive adjustments to which they are not entitled or adjustments may be made to customer accounts for inappropriate purposes.

Enforcement – The Town's water ordinance⁴ establishes that water charges are due within 30 days of billing and all current charges outstanding after 30 days will be assessed a 10 percent penalty. The Town's water ordinance also establishes that, if payment is not received by the end of the collection period, all delinquent amounts will be re-levied.⁵ The Board should review and approve the list of re-levied water accounts by comparing it to a delinquent customer account report from the billing and collection software to ensure that all overdue accounts are properly re-levied.

We reviewed a sample of 30 delinquent customer accounts⁶ at the payment due dates during our audit period and found that penalties

² We used a computerized random number generator to select 25 water billings from the second quarterly billing register for the 2013 fiscal year and 25 water billings from the second quarterly billing register for the 2014 fiscal year.

³ We used a computerized random number generator to select 25 parcels from a real property tax listing from Essex County for the 2014 fiscal year of all the parcels within the water district.

⁴ Ordinance Relating to the Rules and Regulations of Port Kent Water District 1

⁵ A re-levy adds unpaid water charges to the property owner's real property tax bill.

⁶ Our sample consisted of selecting, without any known bias, 30 delinquent accounts throughout our audit period.

were not assessed to any of these customers, resulting in lost revenues of \$545. The Clerk stated that she only assesses a 10 percent penalty to delinquent customer accounts at the end of the collection period when they are re-levied, which is not in accordance with the Town's water ordinance and has resulted in the Town not realizing all potential revenues. In addition, when penalties are not assessed, there is no incentive for customers to make payments when due, which could create cash flow issues for the water district. Because the Board did not provide sufficient oversight, it was not aware that the Clerk was not following its policies.

The Board did not review and approve the list of re-levied water accounts that the Clerk prepared and sent to Essex County and, therefore, could not ensure that all accounts were properly re-levied. We reviewed a sample of 20 delinquent customer accounts⁷ totaling \$7,659 at the end of the 2013 fiscal year collection period and found that 12 were either not re-levied or not re-levied for the proper amount. For example, for one delinquent account, the Clerk recorded the customer as being re-levied in the billing and collection software, but never included the customer on the list of re-levied accounts sent to Essex County. This resulted in the customer never making the required payment and lost revenues of \$715.

In addition, for eight other delinquent accounts that were originally included on the list of re-levied water accounts that was sent to Essex County, the Clerk accepted payments from these customers after they had been re-levied. For example, a customer that was re-levied on November 1, 2013 made a payment to the Clerk on December 2, 2013. As a result, the Clerk stated that she had to contact Essex County to have these eight delinquent accounts removed from the list of re-levied water accounts. However, we found that this resulted in lost revenues of \$129 because the Clerk did not assess a 10 percent penalty to customers that made payments to her after their accounts had been re-levied.

In total, the errors we identified resulted in lost revenues of \$921 and two customers overpaying \$25. Although the monetary value of the errors in our sample was small, the rate of errors identified in our sample indicates that there may be additional lost revenue to the Town for delinquent customer accounts that were not included in our sample. The Board's failure to ensure that all delinquent accounts are properly re-levied resulted in the Town not realizing all potential

⁷ Our sample consisted of starting with the first delinquent customer account listed on a delinquent customer account report from the billing and collection software at the end of the collection period for the 2013 fiscal year and then selecting every other delinquent customer account.

revenues and further increases the potential for errors or irregularities to occur.

It is especially important for the Board to establish adequate internal controls over the billing, collection and enforcement of water charges because the Town will be performing these same functions for approximately 1,035 additional customers⁸ during the 2015 fiscal year, as a result of the dissolution of the Village of Keeseville on December 31, 2014.

Recommendations

The Supervisor should:

1. Ensure that the Town's accounting records for the water district are complete and accurate.
2. Ensure that the Clerk properly maintains water receivable control accounts in the Town's accounting records and that Town officials perform monthly reconciliations of these accounts with the supporting detailed records. The Supervisor should ensure that any discrepancies are promptly investigated and resolved.

The Board should:

3. Develop and adopt budgets for the water district that include realistic estimates for revenues and expenditures based on historical data and supporting source documentation.
4. Review the water rates periodically and revise them, if necessary, to generate sufficient revenue to cover expenditures.
5. Receive and review budget status reports for the water district on a monthly basis and use them to monitor current-year results against the budget estimates throughout the fiscal year.
6. Make appropriate budget amendments prior to appropriation accounts becoming overexpended.
7. Authorize all interfund advances, and the Supervisor should ensure that they are properly recorded in the accounting records.
8. Ensure that all outstanding interfund advances are repaid, including appropriate interest.

⁸ The Town will be responsible for billing customers for water usage that are located within both the Towns of Chesterfield and Ausable upon the dissolution of the Village of Keeseville.

9. Review and approve all adjustments made to customers' accounts and ensure that they are adequately documented, or designate someone independent of the billing and collection of water charges to perform these functions.
10. Review and approve the list of re-levied water accounts by comparing it to a delinquent customer account report from the billing and collection software to ensure that all delinquent accounts are properly re-levied on real property tax bills.
11. Ensure that the Clerk is aware of, understands and follows policies for billing, collecting and adding penalties and re-levying unpaid water charges on the tax roll.

The Board and Town officials should:

12. Establish written policies and procedures to provide adequate guidance and internal controls over the billing, collection and enforcement of water charges.
13. Ensure that penalties are correctly assessed on all delinquent accounts in accordance with the Town's water ordinance.

Town officials should:

14. Segregate duties over the billing, collection and enforcement of water charges, or, if it is not practicable to segregate duties, establish appropriate compensating controls, such as increased management review procedures.

The Clerk to the Supervisor should:

15. Generate billing registers for each water billing, which should be Board-reviewed and approved.

Tax Collector

The Tax Collector (Collector) is responsible for receiving, recording, depositing, disbursing and reporting all moneys collected in an accurate and timely manner. This requires maintaining accurate and complete records and reports, ensuring that collections are physically secure, promptly depositing moneys and disbursing moneys to the appropriate parties. The Board is responsible for providing oversight of the Collector's operations and establishing a system of internal controls to safeguard taxpayer dollars.

We identified significant internal control weaknesses over the Collector's financial activities. For example, the Collector did not maintain adequate, accurate and complete records and did not assess penalties to all tax payments that were received after the due date. In addition, the Collector did not physically secure tax collections prior to deposit and did not deposit collections in a timely manner and intact.⁹ Furthermore, the Collector did not refund overpayments in a timely manner and did not remit interest and penalties to the Supervisor in a timely manner or in the appropriate amounts. We also found that the Board did not audit the Collector's records as required. Consequently, the Town did not realize all potential revenues for penalties. In addition, as of July 31, 2014, the Collector had a cash shortage of at least \$1,053, which resulted in the Collector not being able to disburse a \$350 refund check for an overpayment or remit \$1,010 in interest and penalties that were owed to the Supervisor.

Collections

The Collector is responsible for the accurate and timely recording of tax collections in the accounting records, assessing penalties¹⁰ to tax payments that are not received by the due date and depositing and securing all moneys collected. The Collector is required by New York State Town Law (Town Law) to deposit all moneys collected within 24 hours of receipt. It is also critical that tax collections be deposited intact to reduce the risk of fraud and concealment. Properly recording the amount and form of payment received enables Town officials to trace these transactions from the point-of-collection through the accounting records to bank deposits and financial reports. If a tax payment is made in excess of the amount billed, the Collector must return the additional payment to the person or entity making that payment.

⁹ In the same amount and form (cash or check) in which they were received

¹⁰ Penalties are assessed on the total amount due at a rate of 1 percent per month starting on February 1 and aggregating to 4 percent by May 1.

Recordkeeping and Deposits – We identified significant internal control weaknesses in the collection of real property taxes. For example, the Collector did not always record payments in the tax collection software when they were received, but instead periodically posted payments in batches. In addition, the amounts recorded on the paid taxes reports, which were printed from the tax collection software and attached to the validated deposit slips, were not always in agreement with the amount of the deposit. Furthermore, the Collector did not record the form of payment received in the tax collection software, although this option was available, and did not prepare itemized deposit slips. As a result, we could not trace tax collections from the tax collection software to corresponding deposits to verify whether taxpayers were making payments in the amount that was owed, including penalties if the payments were late, or whether tax collections were deposited in a timely manner and intact.

Consequently, we obtained bank compositions for a random sample of 10 deposits¹¹ totaling \$359,927¹² that were made into the tax collection bank account during our audit period. We were able to trace all \$340,864 of check payments¹³ in the deposits to 436 corresponding tax payments recorded in the tax collection software. However, the payments that were received and deposited for 39 tax payments (9 percent) were not in the amounts that were owed. Specifically, the dates recorded on the corresponding checks for 22 payments were after the January 31 due date, and, therefore, the taxpayers should have been assessed a penalty. However, the Collector accepted the payments without a penalty and recorded the payments as being received on January 31, resulting in lost revenues of \$265. In addition, the payments that were made for the other 17 tax payments totaled \$142 less than the amount that was owed, but the Collector accepted the underpayments and recorded the payments as being received in the amount that was owed. This practice will result in recorded tax collections being more than the actual amount of collections received and deposited. Therefore, the Collector will not have the funds needed to satisfy the corresponding remittances that are required to be made to the Supervisor and County Treasurer.

We also found that \$320,874 of the \$340,864 in checks (94 percent) were not deposited within 24 hours, as required by Town Law. Checks were deposited between three and 20 days late. For example, \$60,353 in checks that were recorded as being received on either February 28,

¹¹ We used a computerized random number generator to select five deposits from each of the 2013 and 2014 fiscal years.

¹² Composed of \$340,864 in checks and \$19,063 in cash

¹³ Based on the Collector-maintained records, we could not trace the \$19,063 in cash included in the deposits to a corresponding tax payment(s) recorded in the tax collection software.

2014 or March 1, 2014 were not deposited until 19 or 20 days later, on March 20, 2014. The Collector's failure to deposit tax collections in a timely manner increases the risk that moneys collected could be lost or misused. In fact, this risk was further increased because the Collector stored all tax collections in an unlocked filing cabinet in the Town Hall meeting room. Therefore, tax collections were readily accessible to any employee or individual within the Town Hall during business hours and any employee who had a main key to the Town Hall after business hours.

We also found that three of the 10 deposits included checks totaling \$1,432 that did not trace to a corresponding tax payment recorded on the paid taxes report that was attached to the validated deposit slip; this occurred because the Collector was not making deposits intact. For example, a deposit on April 15, 2014 in the amount of \$13,458 included a check in the amount of \$663 that was not included on the corresponding paid taxes report. Instead, this payment was recorded in the tax collection software on April 19, 2014, four days after the date on which the check was deposited, and the payment was included on the paid taxes report for a deposit that was made on April 30, 2014. The other two deposits contained similar discrepancies. When deposits are not made intact, accountability over collections is lost and there is no way to ensure that all collections received are deposited.

Overpayments – We reviewed a sample of 15 overpayments¹⁴ totaling \$2,452 that the Collector received during our audit period to verify whether refund checks were issued or that credits were applied towards a future payment for taxpayers on the installment plan.¹⁵ As of July 24, 2014, the Collector had not issued refund checks for three overpayments totaling \$1,603 that were received during the 2014 fiscal year tax collection period. This likely resulted because none of these overpayments were recorded in the tax collection software. When we informed the Collector, he prepared refund checks for all three overpayments but only disbursed two refund checks totaling \$1,253.¹⁶ The Collector did not disburse the remaining refund check totaling \$350 because he did not have sufficient funds in his tax collection bank account. Specifically, if this refund check and two outstanding checks totaling \$185 cleared the tax collection bank account, it would be overdrafted by \$43.

¹⁴ Our sample consisted of selecting, without any known bias, 15 overpayments that were received by the Collector throughout our audit period.

¹⁵ Taxpayers that elect to be on the installment plan are required to make a monthly payment equal to one fourth of their total tax bill plus applicable penalties to the Collector during the tax collection period months of January through April.

¹⁶ The two checks cleared the tax collection bank account in August 2014.

The Collector's failure to maintain adequate records to document tax collections, properly assess penalties to late tax payments and deposit collections in a timely manner and intact has resulted in lost revenues and delayed refunds of overpayments and significantly increases the risk that fraud and abuse could occur and remain undetected.

Remittances

The Collector is required by Town Law to remit all receipts to the Supervisor at least once each week until the Town's portion of the tax levy is satisfied and to remit all residual collections to the County Treasurer by the 15th of each month following their receipt. The Collector is also responsible for remitting to the Supervisor all interest earned on his tax collection bank account and penalties collected for late payments.

We reviewed all remittances that were made to the Supervisor for the Town's portion of the tax levy and all remittances that were made to the County Treasurer for residual collections during our audit period to determine if they were made in a timely manner and in accordance with Town Law. Except for some minor exceptions that we discussed with Town officials, we found that the collections were remitted in a timely manner. However, the Collector remitted penalties that were collected for the months of April 2013 totaling \$1,656 and 2014 totaling \$2,667 to the Supervisor on July 28, 2013 and July 2, 2014, respectively, which is three and two months after the penalties were collected. In fact, the only reason that the Collector remitted the April 2014 penalties to the Supervisor on July 2, 2014 was because we informed the Collector on June 30, 2014 that he had not yet remitted these penalties to the Supervisor.

We also reviewed all 31 check disbursements, totaling \$3,728,564, that were made from the tax collection bank account during our audit period to verify that they were for appropriate amounts. We found that \$4,481 in penalties was recorded in the tax collection software as being received during the 2013 tax collection period, but the three remittances to the Supervisor totaled \$9,047, resulting in \$4,566¹⁷ more being remitted to the Supervisor than the recorded penalties. The Collector stated that the additional amounts came from the \$4,610 balance that was in his tax collection bank account as of January 1, 2013, but he did not have an explanation for the origin of this balance.

As a result of the \$4,610 unidentified balance in the tax collection bank account as of January 1, 2013, we expanded our review of

¹⁷ The first remittance included an additional \$1,000, the second remittance included an additional \$1,000, and the third remittance included an additional \$2,566 more than the recorded penalties for the respective months of February, March and April 2013.

interest and penalties to include the 2010 through 2012 fiscal years. We found that the Collector did not remit interest totaling \$233 and penalties¹⁸ totaling \$5,342 to the Supervisor during the 2010 through 2012 fiscal years. The \$5,575 in unremitted interest and penalties was \$965 more than the \$4,610 balance in the tax collection bank account as of January 1, 2013. In fact, during the 2010 through 2014 fiscal years, the combined total of interest earned and recorded penalties in the tax collection software was \$23,851, but the Collector had only remitted \$22,841 to the Supervisor during this time, resulting in \$1,010 being owed to the Supervisor as of July 31, 2014. However, as previously mentioned, the Collector did not have sufficient funds in his tax collection bank account to even be able to refund all overpayments that were received. As a result, as of July 31, 2014, the Collector had a cash shortage of at least \$1,010.

The Collector did not have an explanation for this cash shortage. However, subsequent to our audit fieldwork, the Collector stated that he found \$942 in cash in the unlocked filing cabinet where he maintains tax collections prior to deposit. The Collector stated that this cash consisted of tax collections that he received during the 2011 fiscal year, but must not have deposited. Although we had no means to verify that the Collector actually found the \$942 in the filing cabinet, we verified that the Collector deposited the cash into his tax collection bank account and issued the Town a check for this amount on September 19, 2014.

Delays in remitting interest and penalties to the Supervisor results in moneys not being available to fund Town operations and increases the risk that they could be used for inappropriate purposes. In addition, the Collector's inability to remit \$1,010 in interest and penalties owed to the Supervisor as of July 31, 2014 is indicative that collections were either unaccounted for or missing.

Annual Audit

Town Law requires the Board to conduct or obtain an annual audit of the records and reports of any Town officer or employee who received or disbursed moneys on behalf of the Town in the preceding year. The purpose of this annual audit is to provide assurance that public moneys are handled properly (i.e., deposited in a timely manner, accurately recorded and accounted for), to identify conditions that need improvement and to provide oversight of the Town's financial operations. While the Board is required to audit the Collector's records at least annually, more frequent monitoring of the Collector's financial activities helps reduce the risk that errors or irregularities will occur and go undetected.

¹⁸ The Collector only remitted the recorded penalties for the months of February and March to the Supervisor during the 2010 through 2012 fiscal years.

The Board minutes for the January 7, 2014 organizational meeting included a motion stating that the Collector's books, records and reports were accepted for the year 2013. However, the motion noted in the minutes is not an accurate reflection of the meeting's proceeding,¹⁹ as the Collector stated that he did not provide his financial records and reports for the 2013 fiscal year to the Board for audit. In addition, the Supervisor stated that the Board did not audit or obtain an audit of the Collector's records annually. We question why the Board would include a motion in the minutes to accept the Collector's records when it was not provided any records to review. The Board's failure to conduct an audit of the Collector's records allowed the Collector to maintain insufficient and inaccurate records and allowed for discrepancies to occur and remain undetected. Had the Board conducted the annual audit of the Collector's records, some of the deficiencies found during our audit may have been identified and addressed sooner.

Recommendations

The Collector should:

16. Record tax payments in the tax collection software when they are received.
17. Distinguish whether receipts were received in cash or by check, both on deposit slips and when recording payments in the tax collection software.
18. Properly assess penalties to all tax payments that are not received by the due date.
19. Discontinue the practice of accepting underpayments.
20. Ensure that collections are physically secured prior to deposit and access to collections is limited.
21. Deposit tax collections within 24 hours of receipt and intact.
22. Return or refund overpayments that are received in a timely manner to the person or entity making the overpayment.
23. Remit all future interest and penalties to the Supervisor in a timely manner and remit any remaining unpaid interest and penalties to the Supervisor.

¹⁹ The Board historically passes the same motion at its annual organizational meeting.

The Board should:

24. Annually examine, or cause to be examined, the Collector's financial records and reports. The Board should also consider providing more frequent monitoring of the Collector's activities.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



GERALD H. MORROW

Supervisor – Town of Chesterfield

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February 27, 2015

NYS Office of the State Comptroller
Division of Local Government & School Accountability
One Broad Street Plaza
Glens Falls, New York 12801

To Whom It May Concern:

Please consider this letter as my response to the OSC Audit Report for the period covered from January 1, 2013 to July 31, 2014.

I think my meeting with [REDACTED] and [REDACTED] was very informative and productive. I think a lot of our problems with Port Kent Water District I was because of the long term 8.1 million dollar water project that lasted over 8 years. This project is finally closed and now we can spend more time on correcting the accounting records for Port Kent Water. One thing that I am working on is correcting the inappropriate transfer of \$30,410 from the General Fund to the Port Kent Water Fund. The Town received a payment from NYSEG for the Port Kent Water District in which was incorrectly deposited into the General Fund. The transfer from General Fund to Water Fund was a corrective transaction.

I will be reviewing each other audit recommendation with my clerk and then I will send a corrective action response to each one.

I also reviewed the OSC's recommendations for the tax collector with Bruce Bourgeois, our tax collector. These recommendations are pretty straight forward and are currently being corrected. Bruce will be sending in his own CAP to the comptroller's office.

I would like to thank [REDACTED] for his time explaining the audit process. These audit recommendations will help us to operate our local government more efficiently and accurately.

Sincerely,

Gerald H. Morrow
Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls officials put in place 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.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as Town policies, Board minutes and financial records and reports. 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 or professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected the financial operations of the Port Kent Water District 1 and the Tax Collector's financial activities for further audit testing.

To accomplish our water district audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed the Supervisor, a Board member and the Clerk to gain an understanding of the budget development process for the water district, determine if the Board received monthly budget status reports for the water district and determine if budget amendments were being made during the fiscal year.
- We reviewed the Town's accounting records for the water district for fiscal years 2012 through 2014 to determine whether they were complete and accurate. Based on the accounting errors that we identified, we recalculated the water district's actual revenues and expenditures for fiscal years 2012 through 2014.
- We compared the adopted budgets for the water district for fiscal years 2012 and 2013 with the actual results of operations to determine if the budgets were realistic and if the water district realized operating deficits.
- We reviewed the adopted water district budget for 2014 to determine whether the budgeted revenues and appropriations were reasonable based on historical data, supporting source documents and actual results of operations through July 31, 2014.
- We analyzed the actual results of operations for the water district for the 2014 fiscal year through July 31, 2014 to project if it was going to realize an operating deficit and the effect that this would have on its financial condition.
- We reviewed the Town's accounting records and bank statements for fiscal years 2012 through 2014 to determine all of the interfund advances that were made. We then reviewed the interfund advance that was made to the water district to determine if it was approved by the Board, properly recorded in the accounting records and repaid.

- We interviewed Town officials and employees and reviewed Town policies, Board minutes and various financial records and reports related to water charges for the water district to gain an understanding of the internal controls over the billing, collection and enforcement of those water charges and any associated effects of deficiencies found in those controls.
- We reviewed a random sample of 50 water billings to determine if the rates charged agreed with the Board established rates, the billings were correctly recorded in the customers' accounts, payments equaled the amount billed and the collection of payments were properly recorded in the customers' accounts.
- We compared a random sample of 25 water district parcels to the customer accounts within the billing and collection software to determine if customers were being billed for services.
- We reviewed all nine adjustments that were made to water accounts during our audit period to determine if they were pre-approved by the Board and for appropriate purposes.
- We reviewed a sample of 30 delinquent customer accounts at the payment due dates during our audit period to determine if the Town was properly assessing penalties.
- We reviewed a sample of 20 delinquent customer accounts at the end of the 2013 fiscal year collection period to determine if they were re-levied and for the proper amount.

To accomplish our Tax Collector audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed the Collector and Town officials. We reviewed various financial records and reports related to the Collector's financial activities to gain an understanding of the internal controls over the collection, recording, depositing, disbursing, reconciling and reporting of real property taxes and any associated effects of deficiencies found in those controls.
- We obtained bank compositions for a random sample of 10 deposits that were made into the tax collection bank account during our audit period. We reviewed the checks that were included in the deposits to determine if taxpayers made payments in the amounts that were owed, including penalties if the payments were late, and to determine if the checks were deposited in a timely manner and intact.
- We physically inspected the location of tax collections prior to deposit to determine if they were safeguarded and accessible to only authorized employees.
- We reviewed a sample of 15 overpayments that were received by the Collector during our audit period to verify whether a refund check was issued to the person or entity that made the overpayment or that a credit in the amount of the overpayment was applied towards a future payment for taxpayers on the installment plan. For the overpayments that had not been refunded, we determined if the Collector had sufficient funds in his tax collection bank account to be able to issue the refund checks.

- We reviewed all remittances that were made to the Supervisor for the Town's portion of the tax levy and all remittances that were made to the County Treasurer for residual collections during our audit period to determine if they were made in a timely manner in accordance with Town Law.
- We reviewed all check disbursements that were made from the tax collection bank account during our audit period to verify whether they were for appropriate amounts.
- We calculated the amount of interest that was earned on the tax collection bank account and the amount of penalties that was recorded in the tax collection software during the 2010 through 2014 fiscal years and then determined if the Collector remitted the interest and penalties to the Supervisor in a timely manner and in the appropriate amounts. For the interest and penalties that had not been remitted to the Supervisor, we determined if the Collector had sufficient funds in his tax collection bank account to be able to remit the amount owed to the Supervisor.
- We interviewed Town officials and reviewed the Board minutes to determine whether the Board had examined the Collector's financial records and reports during the 2013 fiscal year.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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