



# Town of Newfane

## Supervisor's Financial Records

### Report of Examination

Period Covered:

January 1, 2015 – November 17, 2016

2017M-7



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

April 2017

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 Newfane, entitled Supervisor's Financial Records. 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*

# Introduction

## Background

The Town of Newfane (Town) is located in Niagara County (County) with a population of approximately 9,600. The Town Board (Board) is composed of four elected Council members and an elected Town Supervisor (Supervisor). The Board is the legislative body responsible for the general management and control of the Town's financial affairs.

The Supervisor is the Town's chief financial officer and is responsible for performing accounting functions, including maintaining accounting records and providing monthly financial reports to the Board. The Supervisor's secretary records financial activity, including cash receipts and disbursements, and processes cash transfers between bank accounts. The Town also contracts with a certified public accounting firm (CPA) to assist the Supervisor in performing his financial duties, such as performing monthly bank reconciliations, preparing and reviewing journal entries and preparing the Town's annual financial report that is filed with the Office of the State Comptroller.

The Town provides a variety of services to its residents, including highway maintenance and improvements, snow removal, fire protection, water services and general government support. The Town's primary funding sources are sales tax, real property taxes and State aid. The Town's 2016 budgeted appropriations totaled \$5.8 million for all funds.

## Objective

The objective of our audit was to review the Supervisor's financial records and reports. Our audit addressed the following related question:

- Does the Supervisor maintain accurate and complete financial records?

## Scope and Methodology

We examined the Supervisor's financial records and reports for the period January 1, 2015 through November 17, 2016.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of Town 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 findings and indicated they planned to initiate corrective action. Appendix B includes our comments on issues raised in the Town’s 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 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.

## Supervisor's Financial Records

The Supervisor is responsible for maintaining accounting records and preparing accurate and timely financial reports in order to provide the Board with information needed to monitor the Town's financial affairs. If the Supervisor assigns these duties to his secretary or an accounting firm, he should provide sufficient oversight to ensure that the records are accurate, complete, reliable and up-to-date. Accurate recording and reporting of financial activity is critical to effectively managing the Town's operations.

The secretary records financial activity, including cash receipts and disbursements, and posts adjusting journal entries which are approved by the CPA in the Town's financial system. The CPA prepares monthly bank reconciliations and provides the completed reconciliations to the secretary. The Supervisor relied on his secretary and the CPA to maintain the Town's accounting records and perform the Town's financial reporting without providing sufficient oversight. Due to the lack of oversight, we analyzed the Town's cash balances and major revenues.

The Supervisor did not properly maintain accurate and complete financial records. While the secretary provided monthly reports, including the bank reconciliations, to the Supervisor, the Supervisor did not provide those financial reports to the remaining Board members. As a result, the Board did not receive adequate information to properly monitor the Town's financial affairs. We found various exceptions in the accounting records, including missing bank reconciliations, revenues not being recorded and tax penalties not remitted in a timely manner. In addition, one property tax payment totaling \$3,365 was returned by the bank for insufficient funds but was not relieved and remains unpaid.

Cash and Bank Accounts — We reviewed December 31, 2015 and August 31, 2016 bank reconciliations and found that the CPA did not reconcile the Town's marina bank account. We found that in 2016 cash was deposited but the revenue totaling approximately \$25,300 was not recorded until we brought it to the Town's attention during our audit fieldwork in October 2016.

Real Property Taxes — The Supervisor did not receive the 2015 real property tax penalties totaling \$6,420 until the following fiscal year in January 2016. The former Receiver of Taxes (Receiver) settled with the County<sup>1</sup> in April 2015 but then later separated from the Town. However,

<sup>1</sup> To settle with the County, tax collectors account to the County Treasurer for the taxes collected, the amount of taxes remitted to the Town and County, any adjustments to the tax roll, and the taxes that remain unpaid. Generally, there is no further activity and the collector's bank account balance is zero.

\$6,420 in tax penalties remained in the bank account until the new Receiver was appointed in January 2016. This occurred because the Supervisor did not ensure tax penalties were remitted to him before the former Receiver settled with the County.

During our audit fieldwork, we also identified a check payment for real property taxes totaling \$3,365 that was returned by the bank for insufficient funds. This occurred because the account was not properly reconciled. As such, Town officials were not aware of this discrepancy and that the payment was never resubmitted and remained unpaid. We brought this to Town officials' attention during our audit fieldwork and they indicated they would work with the Town attorney to collect the payment.

When the Supervisor places too much reliance on the secretary and the CPA to perform his duties without sufficient oversight, controls are weakened. In addition, the Board's ability to adequately monitor the Town's financial affairs is limited because the Supervisor did not provide monthly financial reports. Consequently, there is an increased risk that errors and irregularities could occur and not be detected and corrected in a timely manner.

## **Recommendations**

The Supervisor should:

1. Properly monitor his secretary's and the CPA's work to ensure that accounting records are timely, complete and accurate.

The Board should:

2. Ensure that monthly bank reconciliations are performed for all of the Town's bank accounts.
3. Require the Supervisor to provide adequate monthly financial reports to the Board for review.
4. Consult with the Town attorney and seek recovery of unpaid real property taxes.

**APPENDIX A**  
**RESPONSE FROM TOWN OFFICIALS**

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

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778-8531  
TOWN CLERK  
778-8822  
ASSESSOR  
778-8827  
BUILDING INSPECTOR  
778-5947  
WATER/SEWER  
778-8132



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March 24, 2017

Jeffrey D. Mazula, Chief Examiner  
Buffalo Regional Office  
Office of the New York State Comptroller  
295 Main Street, Suite 1032  
Buffalo, New York 14203-2510

To Whom It May Concern:

The Town of Newfane (the "Town") is in receipt of the State Comptroller's Office draft Report of Examination entitled Supervisor's Financial Records for the period covered January 1, 2015 through November 17, 2016. On behalf of the Town, we truly appreciate the Comptroller's Office's effort and professionalism exhibited during the performance of your audit. The Town was pleased that the State Comptroller's audit did not identify any instances of fraud, wrongdoing, misappropriation of funds, or instances of misuse or waste.

The draft report contains a few conclusions that, in our opinion, are subjective statements by the Comptroller's auditors and create a negative portrayal of, specifically, the Town Supervisor's job performance and responsibility. In particular, the auditors' cite the Supervisor's reliance placed on others for certain maintenance and compilation of financial records; however, the Town considers the reliance placed on the contracted accountants and Secretary to the Supervisor to be appropriate in these circumstances since the Town Supervisor delegates transaction-level job duties and responsibilities to the staff, for which the Supervisor reviews and monitors their work on an at least monthly basis.

See  
Note 1  
Page 9

In response to the State Comptroller's recommendation that the Town Board should require the Supervisor to provide monthly reports to the Board for review, the Supervisor has begun providing a monthly detailed budget to actual report for all revenues and expenditures included in the Town's adopted budget. In an effort to save paper and promote an environmentally conscious mindset, the Supervisor provides this monthly communication to the Board through email transmission prior to each Board meeting.

#### Cash and Bank Accounts

The draft report states "We found that in 2016, cash was deposited, but the revenue...was not recorded until we brought it to the Town's attention during our audit fieldwork in October 2016." We consider this statement subjective and misleading to the reader of the report. The Town was fully aware of the cash deposits cited by the Comptroller's auditors, evidenced by monthly reports provided by the Marina Department to the Secretary to the Supervisor being compared to the monthly bank statements received for the Marina account.

See  
Note 2  
Page 9

Regarding the Marina deposits not being recorded as revenue within the Town's general ledger in a timely manner, during 2016 the Town underwent a complete transition of their financial accounting software. The timing of the State Comptroller's audit fieldwork aligned with this software transition; therefore, certain accounts and transactions were still being transitioned and reviewed during the State Comptroller's audit. We agree with the Comptroller's finding regarding the untimely financial reporting,

however, the Town attributes these delays in financial reporting to this full-scale financial accounting software transition which required significant Town attention and effort. The Marina revenue was recorded in the general ledger as soon as the software was determined to be operating effectively.

### Real Property Taxes

The draft report made a recommendation that the Town consult with legal counsel and seek recovery of cited unpaid real property taxes. The Town wholly agrees with this comment and, in fact, had begun this process prior to the release of this State Comptroller's report. The Town has agreed to a payment plan with the owing individual and will recover all unpaid taxes plus penalties and interest.

### Conclusion

The Town of Newfane is ultimately pleased with the results of the State Comptroller's audit. Our Town was reviewed with no findings regarding any instances of fraud, wrongdoing, misappropriation of funds, or instances of misuse or waste. We consider the audit and draft report findings to be a source for opportunities to further improve the dealings and operations within the Town.

Again, we thank the State Comptroller's Office for their time, efforts and professionalism in the performance of the audit. As required, the Town will prepare and submit a corrective action plan within the ninety day statutory requirement.

Sincerely,

Timothy Horanburg  
Town Supervisor  
Town of Newfane, New York

## **APPENDIX B**

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

#### Note 1

Our audit, conducted in accordance with GAGAS, found that the Supervisor needs to improve his oversight of financial operations to ensure financial records are accurate and complete.

#### Note 2

Town officials must have accurate, complete and current financial records for generating reliable reports and making informed decisions.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Town officials and the CPA and reviewed Board minutes to gain an understanding of the Town's accounting practices.
- We reviewed the financial information provided to the Board by the Supervisor to determine if it was sufficient, timely and relevant.
- We reviewed bank statements and bank reconciliations for December 2015 and August 2016 to determine if bank reconciliations were properly performed. We judgmentally selected December 2015 because the end of year typically has more activity than other months. We judgmentally selected August 2016 because it was the most recently completed bank reconciliation prior to the start of our audit.
- We traced all significant revenues from the Town's accounting records to the bank statements to determine whether the revenues were recorded and deposited accurately and in a timely manner.

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 D

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