



Town of Beekman

Dover Ridge Sewer and Water Districts' Financial Operations

Report of Examination

Period Covered:

January 1, 2015 — May 19, 2016

2016M-260



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2016

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 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 Beekman, entitled Dover Ridge Sewer and Water Districts' 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*

Introduction

Background

The Town of Beekman (Town) is located in Dutchess County and has approximately 15,000 residents. The Town is governed by an elected five-member Town Board (Board), which is composed of the Town Supervisor (Supervisor) and four Board members. The Supervisor serves as the chief executive officer. The Board is the legislative body and is responsible for the general management and control of the Town's financial affairs, including establishing internal controls over financial operations and maintaining sound financial condition. The Town Comptroller (Comptroller) is the Town's accounting officer and is responsible for maintaining the Town's accounting records, including those of the sewer and water districts.

The Dover Ridge development was constructed in the 1960s and consists of 67 homes that included private sewer and water systems. The developer abandoned the private sewer and water systems in 1997; the Town took ownership and established the Dover Ridge sewer and water districts (Districts) in October 1998. Throughout the ensuing years various improvements were made to the Districts, such as an additional well and the rehabilitation of the existing well. The Town issued bonds totaling \$773,820 for the improvement of the sewer district in 2006. The Town contracts with a vendor to operate and maintain the Districts.

According to Town records, the sewer fund and water fund had balances due to the general fund of \$264,336 and \$95,732, respectively, at the end of the 2007 fiscal year.

Objective

The objective of our audit was to review the Dover Ridge sewer and water districts' financial operations. Our audit addressed the following related question:

- Are there adequate internal controls over the sewer and water districts' financial operations to properly safeguard the Districts' assets?

Scope and Methodology

We examined the Districts' financial operations for the period January 1, 2015 through May 19, 2016. We extended our review of financial activities back to January 1, 2009 to calculate the Districts' fund balance.

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 B 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 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 findings and recommendations and indicated that they have taken, or plan to take, 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 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.

Sewer and Water Districts' Financial Operations

A well-designed system of internal controls is necessary to ensure financial activities are properly recorded and reported. The Board must ensure that internal controls are in place and working effectively, particularly when there is limited segregation of duties. The Comptroller¹ is responsible for accounting and reporting the Districts' financial activities. To meet that responsibility, the Comptroller must maintain complete and accurate accounting records and periodically reconcile bank accounts. Monthly reconciliation of bank accounts enables Town officials to verify the accuracy of financial records and establish control over cash. In addition, the Board-approved procurement policy should include the method of selection of professional service providers.

The general fund has been subsidizing the Districts. As a result, the sewer and water funds owe the general fund \$100,020 and \$13,745, respectively. Accounting records for the Districts are not accurate. All amounts billed could not be traced to deposits, all expenditures could not be explained and bank reconciliations were not performed in a timely manner. Furthermore, we found inadequate segregation of duties in the Districts' financial activities with no compensating controls in place. Finally, the Board-approved procurement policy did not include the method of selecting the Districts' professional service providers. As a result, there is no assurance that professional services for which the Districts paid a total of \$187,209 in the last three years were acquired in the most prudent and economical manner.

Interfund Advances

General Municipal Law (GML) allows municipalities to temporarily advance money from one fund to another, with certain restrictions. When Town officials advance money between funds that have different tax bases, they must repay the advance with the proper amount of interest by the end of the fiscal year in which the advance was made.

The Districts are funded by a quarterly fee and a special annual assessment of \$385 paid by each District resident as part of their tax bill. The Town bills residents quarterly for sewer and water usage based on the budgeted amount to operate the Districts. The annual budgeted amount is divided equally among the 67 homes in the Districts. The Districts' 2015 and 2016 budgeted appropriations

¹ The former Town Comptroller served from 2010 until December 2013. The current Town Comptroller took office effective January 2014. In this report, we refer to the current Comptroller as "the Comptroller" and the former Comptroller as "the former Comptroller."

for both years were approximately \$109,000 for the sewer fund and \$53,000 for the water fund. The annual cost per home was \$1,985 for both water and sewer after taking into account interest and penalty revenues. In addition, the special assessment of \$25,795 generates revenue to cover outstanding debt and interest payments incurred for the maintenance and improvements of the sewer district.

The Comptroller maintains two separate bank accounts, one for the sewer fund and one for the water fund. The Comptroller deposits payments received from residents into these accounts and makes transfers to the Town's general disbursement account to pay for claims as the Board approves them. Uncollected water and sewer fees as of November each year are reported to Dutchess County and levied in the ensuing year's tax bill. The levied amounts and the \$25,795 special assessment for the outstanding sewer debt payments should be deposited in the corresponding bank accounts.

The Town did not maintain complete accounting records of the Districts' financial activities. We reviewed the Districts' bank statements from 2009² to May 2016 and found that, from January 2010 to December 2013, the former Comptroller did not transfer funds from the Districts' accounts to the Town's general fund to pay for the Districts' expenses. In addition, the amounts collected from 2009 through 2012 for unpaid sewer fees (\$82,627), water fees (\$49,411) and special assessments (\$103,180) were not deposited into the water and sewer bank accounts but instead were deposited into the Town's general fund bank account. In December 2013, the former Comptroller transferred \$250,000 and \$140,000 from the sewer fund and water fund accounts, respectively, into the Town's general fund account to pay for the Districts' expenses.

Because the records were incomplete, we obtained billings from the vendor that operates the Districts to calculate the actual sewer and water expenses for the four years 2010 through 2013, then determined how much, if any, the Districts owe the Town's general fund as of May 19, 2016 (Figure 1).

² The earliest year that records were available from the bank or the Town

Figure 1: Amounts Owed to the General Fund as of May 19, 2016

	Due From Sewer Fund	Due From Water Fund
Amount reported as due to general fund as of December 31, 2009	\$264,336	\$95,732
Plus: Total expense (less amount recovered from fraud insurance) ^a	\$271,551	\$107,424
Total amount due to general fund	\$535,887	\$203,156
Less: Amount paid to general fund	\$435,867	\$189,411
Actual amount due to general fund	\$100,020	\$13,745
^a In 2015 the Town received insurance money from a fraud and the Districts received \$27,476 of the moneys recovered.		

The general fund bank balance included amounts owed to the sewer fund totaling \$164,316, and because the reported due from the sewer fund to the general fund was \$264,336, the sewer fund owes the general fund a net amount of \$100,020. The general fund bank balance also included amounts owed to water fund totaling \$81,987, and because the amount due from the water fund to the general fund was \$95,732, the water fund owes the general fund a net amount of \$13,745.

In total the Districts owe the Town’s general fund \$113,765. Therefore, the Town has not complied with the law because the funds advanced to the Districts were not repaid within one year. In addition, since the amounts in the general fund were generated from a different tax base, taxpayers who are not part of the Districts are paying for sewer and water services from which they do not benefit.

Recordkeeping

Best practices indicate that, particularly in a small municipality with few people involved in financial operations, the total amount billed in each billing period should be recorded in the minutes of the Board’s proceedings. Recording the total amount billed not only informs the Board of amounts expected to be collected but also establishes accountability to those charged with collecting and reconciling amounts billed. An adequate record of payments received and disbursements made helps officials monitor operations and reconcile the receivable control account³ balance to the sum of individual customer account balances, preferably each month. Therefore, any difference between the control account (total) balance and the sum of customer account balances can be identified and resolved.

³ A control account is an account in the general ledger which is an overall summary of individual transactions for each customer. It is generally updated with total amounts, such as total collections for the month, total billings for the month and total adjustments for erroneous billings.

We reviewed the withdrawals from the Districts' bank accounts and compared them to Board-approved expenditures and expenses recorded in the ledger. We found two bank transactions in the water fund bank account totaling \$10,728 that the Comptroller could not explain: a \$5,499 transfer to the sewer fund account and a \$5,229 transfer to the general fund account.

In addition, District billing amounts are not noted in the Board minutes, and billing and collections records were unclear. The Comptroller keeps the amount of collections in a spreadsheet with the necessary information in a hidden comment box, making it difficult to identify the collections for the month and compare them with the bank deposits. We compared bank statements to the Comptroller's spreadsheet to determine if all collections on the spreadsheet matched the total deposited in the Districts' bank accounts for the 2015 fiscal year. We found minor errors; for example, total bank deposits in the sewer fund account were lower than the amount shown in the spreadsheets as collected by \$213 in 2015, and the total deposit amount included a \$1,920 deposit from the general fund that the Comptroller could not explain.

Although the errors we identified were relatively minor, without adequate records there is limited assurance that all bank transactions are traceable to the records. Further, monthly bank reconciliations were not always prepared. As a result, there is an increased risk that errors and irregularities could occur and not be detected and corrected in a timely manner.

Bank Reconciliations

Good business practices require that monthly bank reconciliations be performed to trace bank balances to general ledger balances. Discrepancies should be documented and investigated, and necessary adjustments to the general ledger should be made in a timely manner. All reconciliations should be subject to an independent review. These procedures help ensure the accuracy of the accounting records and financial reports and help safeguard cash.

The Comptroller did not perform monthly bank reconciliations of Districts' accounts from January 2016 through May 2016. We performed the reconciliation for the last three months and did not find any discrepancy. The Comptroller performed bank reconciliations to June 30, 2016 prior to the end of our fieldwork.

Not performing monthly reconciliations of bank accounts increases the risk that discrepancies could occur without being detected and resolved.

Segregation of Duties

Segregation of duties is the division of key tasks and responsibilities among employees so that the same person does not have the ability to authorize, execute and record a transaction or control the entire cash receipts or disbursements process. Proper segregation of duties aids in the prevention and timely detection of errors and irregularities. When sufficient segregation of duties is not possible, the Board should implement compensating controls, such as increased management oversight. Compensating controls could also include having someone independent of the cash receipts and disbursements processes routinely review bank statements, canceled checks, cash receipts records and bank reconciliations, and compare these financial records to the monthly financial reports. Independent reconciliations of receivable control accounts to individual customer account records for water and sewer charges is another compensating control that could help detect errors or irregularities.

The Comptroller is in charge of all aspects of billing, receiving, depositing and updating customer records. The Board did not adequately segregate financial duties within the Comptroller's office or establish compensating controls over financial operations. As a result, there is an increased risk that money could be received and not deposited in District bank accounts and that unauthorized or inappropriate disbursements could be made without detection.

Professional Services

GML does not require the Town to use competitive bidding when procuring professional services that involve specialized skill, training and expertise; the use of professional judgment or discretion; or a high degree of creativity. However, GML requires the Town to adopt policies and procedures that govern the procurement of goods and services when competitive bidding is not required. Using a request for proposals or quote process helps to ensure that the Town receives the most favorable terms when procuring professional services and provides residents with assurance that services are procured in the most prudent and economical manner without favoritism.

The Town contracts with a vendor for the operation and maintenance of the Districts. The cost for these services is over 50 percent of the Districts' total expenses. The vendor was not selected through any competitive method but was chosen when the previous vendor could no longer provide those services. The current vendor emailed the Town soliciting the contract because two employees from the previous contractor were now employed by the current vendor. The current vendor began servicing the Districts in February 2012 and was paid a total of \$187,209 as of the end of the 2015 fiscal year (an average of \$62,403 a year over the three years 2013, 2014 and 2015). The previous vendor was paid a total of \$149,349 from 2009 through 2011, an average of \$49,783.

While the Town followed its procurement policy – which did not require the Board to use competition when procuring professional services – without a competitive process, District residents did not have adequate assurance that Town officials were procuring the most economically beneficial professional services from qualified providers and that these procurements were not influenced by favoritism.

Recommendations

The Board should:

1. Ensure that all interfund loans are repaid in a timely manner.
2. Require the Comptroller to report amounts billed and to perform a monthly accountability.
3. Implement compensating controls to address the lack of segregation of duties within the Districts' financial activities.
4. Ensure that bank reconciliations are performed monthly by an employee or official who does not have custody of or access to cash and who does not record cash receipt, cash disbursement or journal entry transactions.
5. Consider amending its procurement policy to include the use of competitive methods to obtain professional services.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Town of Beekman

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September 15, 2016

New York State Office of the State Comptroller
Newburgh Regional Office
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New Windsor, New York 12553

To Whom It May Concern,

On behalf of the Town of Beekman, I would like to take this opportunity to respond to the Report of Examination for the Dover Ridge Sewer and Water Districts' Financial Operations. I would like to say that we are grateful for the expert work performed by the representatives from the New York State Comptroller's Office in determining their final results.

The residents of Dover Ridge should now be satisfied with the results of this Examination. They should be happy that the New York State Comptroller's Office took the time to answer their call for the Audit and Recommendations for their Water and Sewer Districts.

The Town of Beekman is satisfied with the findings revolving around the interfund advances, recordkeeping, bank reconciliations, segregation of duties and professional services of the Dover Ridge Water and Sewer Districts. It is our intention to submit a Corrective Action Plan (CAP) within 90 days of the release of the final audit report. Please be assured that we have already implemented many of the recommendations suggested from this audit.

I thank you for the thorough audit of the Dover Ridge Water & Sewer Districts. The results are informative and have offered Beekman much appreciated guidance. The audit team was helpful in discussing the items found during the audit and were beneficial in helping us understand the much needed changes. We have taken your recommendations very seriously. We will move forward with these recommended

changes, as we value the trust and confidence the residents of Beekman have placed in us.

Sincerely,

Barbara A. Zulauf, Supervisor
Town of Beekman
(845) 724-5300 ext. 5
supervisor@townofbeekmanny.us

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed the Board minutes for approval of expenditures and Board actions.
- We interviewed Town officials responsible for financial oversight and for maintaining accounting records to gain an understanding of the Districts.
- We obtained the ledger of expenses for fiscal years 2009 to the present and compared amounts paid to the major vendors against vendors' provided records.
- We obtained the Districts' ledger of expenses and the billing and collection spreadsheet for 2015, and we traced all transactions to the bank statements.
- We reviewed the Board's procurement policy to determine if the Town used competition when obtaining professional services.
- We reviewed collections and traced them to the bank records.
- We performed the bank reconciliations for the last three completed months.

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.

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