



Town of Burke

Fiscal Oversight

Report of Examination

Period Covered:

January 1, 2015 – June 30, 2016

2016M-277



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 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 Burke, entitled Fiscal Oversight. 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 Burke (Town) is located in Franklin County and has a population of approximately 1,500. 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 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 and general governmental support. The Town's budgeted appropriations for the 2016 fiscal year are approximately \$866,000, funded primarily with real property taxes.

Objective

The objective of our audit was to review the Board's oversight of selected financial operations. Our audit addressed the following related question:

- Did the Board adequately oversee select areas of the Town's financial operations?

Scope and Methodology

We examined the Board's oversight of financial operations for the period January 1, 2015 through June 30, 2016. We expanded our scope back to January 1, 2014 for our review of fuel purchases.

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 recommendations and have initiated, or 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 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.

Fiscal Oversight

The Board is responsible for effective financial planning and oversight of the Town's financial operations. These responsibilities include establishing internal controls over financial operations and periodically reviewing them to ensure they are operating effectively. The Supervisor is responsible for providing the Board with timely and accurate financial information. The Board can use this information to make informed decisions when preparing the annual budget, monitoring the Town's financial operations throughout the year and ensuring compliance with relevant laws and policies.

With limited exceptions, New York State Town Law (Town Law) requires the Board to audit and approve all claims before the Supervisor can make payment. In addition, the Board should ensure that Town officials file the required information in a timely manner with the New York State Office of General Services (OGS) to receive State contract pricing for fuel purchases. Town Law also 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 Board did not adequately oversee the Town's financial operations. The Supervisor did not provide the Board with adequate monthly financial reports. In addition, the Board did not have adequate procedures for auditing claims. Consequently, the Board did not audit and approve claims in accordance with Town Law for 20 of the 100 check disbursements totaling \$9,625 that we reviewed. The Board also did not ensure that Town officials filed the required information with OGS to receive State contract pricing for diesel and heating fuel purchases. We notified Town officials of this, who contacted the fuel vendor. The vendor subsequently agreed to reimburse the Town for the amounts paid in excess of State contract pricing. Otherwise, the Town would have incurred \$11,132 more than necessary in expenditures for fuel purchases. Furthermore, the Board did not annually audit or cause an audit of the records and reports of any Town officers or employees who received or disbursed money on the Town's behalf.

Monthly Reports

The Board needs complete, accurate and current financial information to effectively monitor the Town's financial operations. Town Law requires that, at the end of each month, the Supervisor submit a monthly report to the Board of all money received and disbursed. The report should also include comparisons of actual revenues and expenditures to amounts estimated in the annual budget (budget status reports), reconciled cash balances for each fund and bank reconciliations accompanied by bank statements. Because the Board is ultimately responsible for the Town's

financial operations, it should require the Supervisor to present adequate monthly financial reports.

The Supervisor did not provide the Board with adequate monthly financial reports that would enable it to effectively monitor the Town's financial activity, and Board members did not request any additional information. The Board did not receive a detailed monthly statement of all money received and disbursed in accordance with Town Law. In addition, although the Board received monthly budget status reports, the reports did not include any financial information for the part-town general fund and a special water district. The reports also did not include comparisons between budgeted and year-to-date revenues for the town-wide general, town-wide highway and part-town highway funds that were included in the reports. Furthermore, although the Board received a monthly cash balance report containing reconciled cash balances for the Town's nine bank accounts,¹ the report was not accompanied by bank reconciliations and bank statements.

We also found that the cash balance reports did not provide separate cash balances for the town-wide highway and part-town highway funds, but instead included combined cash balances for these funds. This occurred because the Town commingled the cash of the town-wide highway and part-town highway funds in the highway checking and savings accounts and did not maintain separate general ledger cash accounts for these funds. As a result, Town officials could not determine the reconciled cash balances for these two funds during the fiscal year.

The Supervisor's failure to provide adequate monthly financial reports to the Board hinders its ability to exercise financial oversight and increases the risk that errors or irregularities with accounting for the Town's financial transactions could occur and remain undetected and uncorrected.

Claims Auditing

Town Law requires the Board to audit claims and adopt a resolution authorizing the payment of those claims that were approved. Effective claims auditing procedures ensure that every claim against the Town is subject to a thorough and deliberate audit. All claims should contain enough supporting documentation to determine whether they comply with statutory requirements and policies and whether the amounts claimed represent actual and necessary Town expenditures. With limited exceptions,² Town Law requires the Board to audit and approve all claims against the Town prior to directing the Supervisor to pay them.

¹ Excluding the Town Clerk's bank account, the Tax Collector's bank account and the Justice Court bank account

² The Board may, by adopting a resolution, authorize payment of certain claims in advance of its audit. Claims that may be paid in advance include claims for public utility services (electric, gas, water, sewer, fuel oil and telephone services), postage, freight and express charges. Such prepaid claims must still be presented for audit at the next regular Board meeting.

The Board did not have adequate procedures for auditing claims. The Supervisor routinely paid claims prior to the Board's approval that were not authorized by Town Law to be paid in advance of Board audit. This partially occurred because the Board adopted a resolution on January 24, 2012 authorizing the Supervisor to pay all claims necessary before regularly scheduled Board meetings to avoid incurring late fees. However, this is not a legally authorized reason for paying claims in advance of Board audit. Furthermore, the Supervisor paid unauthorized claims in advance of Board audit that would not have resulted in the Town incurring late fees.

We reviewed 100 check disbursements totaling \$75,541 that were made to pay claims during our audit period to determine whether their corresponding claims were supported by adequate documentation, for appropriate Town purposes and audited and approved prior to payment in accordance with Town Law. Except for minor discrepancies, which we discussed with Town officials, all the claims we reviewed were supported by adequate documentation and were for appropriate Town purposes.

However, 35 claims totaling \$13,963 were not audited and approved by the Board prior to payment. Twenty of these claims totaling \$9,625 were not authorized to be paid prior to Board audit in accordance with Town Law. Twelve of the 20 claims totaling \$5,198 included payments for various Town-related purposes, such as mileage reimbursements and the purchase of supplies, and eight claims totaling \$4,427 were for the payment of credit card charges. The remaining 15 claims that were not approved by the Board prior to payment were for purchases that were authorized to be paid prior to Board audit.

Although we did not find any material discrepancies, when unauthorized claims are paid in advance of Board approval, there is an increased risk that the Town could pay for inappropriate claims without detection.

State Contract Fuel Purchases

The Town is authorized to make purchases using New York State contracts awarded by OGS. The majority of State contracts can be used as soon as they are awarded; the Town can place orders directly with the approved vendor. However, the price of certain OGS commodities (e.g., diesel and heating fuel) is directly impacted by volatile market conditions. As a result, OGS has created an on-line "filed requirements" database to assist entities in participating in the next contract cycle for these price-sensitive commodities.

OGS uses the "filed requirements" data to prepare bid documents and solicit competitive bids. The filing of requirements in this database binds the entity to the OGS contract as if they had contracted directly

with the vendor. The awarded vendor has no obligation to provide State contract pricing to entities that do not file information online before the required due date. As such, the Board should ensure that Town officials file the Town's information (i.e., fuel type, tank capacity, etc.) online before the required due date to participate and receive State contract pricing for fuel purchases.

The Town purchased diesel fuel totaling \$82,613 and heating fuel totaling \$11,438 from January 1, 2014 through June 30, 2016 from an awarded State contract vendor. However, Town officials never filed the Town's information related to the purchase of these commodities in the OGS online database to participate and receive State contract pricing from the awarded vendor. As a result, the awarded vendor had no obligation to provide State contract pricing to the Town for these purchases.

We compared the price per gallon paid by the Town for all diesel fuel and heating fuel purchases during January 1, 2014 through June 30, 2016 to the applicable State contract price per gallon to determine if the Town's purchase price was equal to State contract pricing. We found that the Town's purchase price exceeded State contract pricing for diesel fuel by \$10,969 and for heating fuel by \$163. When we notified Town officials of this, they contacted the vendor. The vendor told them that, although not obligated to, they would review the Town's previous diesel and heating fuel purchases and reimburse the Town for any amounts paid in excess of State contract pricing.

The Board's failure to ensure that Town officials filed the required information with OGS to receive State contract pricing for fuel purchases resulted in the Town not receiving State contract pricing. Had the vendor not subsequently agreed to reimburse the Town for the amounts paid in excess of State contract pricing, the Town would have expended \$11,132 more than necessary for fuel purchases.

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 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. A thorough annual audit also provides the Board an added measure of assurance that financial records and reports contain reliable information on which to base management decisions. After completing the audit, the Board should ensure that the completion and results of the audit are included in the minutes.

We found no evidence that the Board had audited the financial records and reports of any officers and employees who received or disbursed moneys on behalf of the Town during the 2015 fiscal year. Specifically, the Board did not audit, or cause to be audited, the financial records and reports of the Supervisor, Town Clerk, Tax Collector, Justice or Code Enforcement Officer. The Board's lack of an annual audit diminishes the Board's ability to effectively monitor the Town's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected.

Recommendations

The Supervisor should:

1. Prepare and provide the Board with adequate monthly financial reports, including a detailed statement of all money received and disbursed during the month, budget status reports containing revenues and expenditures for each fund, reconciled cash balances for each fund and bank reconciliations accompanied by bank statements.
2. Ensure that no claim against the Town, other than those allowed under Town Law, is paid prior to the Board's audit and approval.

The Board should:

3. Ensure that Town officials file required information with OGS before the applicable due dates to participate and receive State contract pricing for fuel purchases.
4. Annually audit, or cause to be audited, the financial records and reports of all Town officers and employees who receive or disburse money on behalf of the Town and document the results of its audit in the minutes.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

David Vincent, Supervisor
Elizabeth Downing, Town Clerk
James Dumont, Code Officer
Thomas Russell, Highway Superintendent

Arnold Lobdell, Councilman
James Otis, Councilman
William Wood Councilman
Timothy Crippen, Councilman

TOWN OF BURKE
PO Box 121
Burke, New York 12917

Town of Burke

Audit Report Title: Fiscal Oversight

Audit Report Number:2016M-277

For each recommendation included in the audit report, the following is our response and corrective action plan.

- **Audit Recommendation:**

Inadequate Monthly Reports

- **Implementation Plan of Action(s):**

Beginning on the first month after our audit, the month end reports were corrected. The report now includes ALL fund balances - receipts and disbursements and a comparison to budgeted amounts. The DA & DB highway funds are complete within themselves, showing monthly expense, month to date balances and remaining budgeted amounts. Reconciled bank statements are attached to the report.

- **Implementation Date:**

October 11, 2016

- **Person Responsible for Implementation:**

Bookkeeper

- **Audit Recommendation:**

Claims Auditing

- **Implementation Plan of Action(s):**

All claims are now viewed and audited and signed by board members before payment is made. Utilities: NYSEG and Time Warner Cable (phone & internet), State Comptroller fees are the only ones that are paid before audit. These are signed at the next meeting.

- **Implementation Date:**

October 1, 2016

- **Person Responsible for Implementation:**

Bookkeeper, Town Clerk and Town Board

- **Audit Recommendation:**

State Contract Fuel Purchases

- **Implementation Plan of Action(s):**

The Superintendent of Highways has ensured that he will file as required with the OGS to insure that state pricing is given to the town. The town has been given credit by the vendor for the difference in state pricing versus prices we were charged.

- **Implementation Date:**

January 2017

- **Person Responsible for Implementation:**

Highway Superintendent

- **Audit Recommendation:**

Annual Audits by Board

- **Implementation Plan of Action(s):**

- The Town Board will review and audit the financial management of all departments receiving or disbursing monies.

The results will be included in the minutes of the board meeting. These departments include: Code Officer, Bookkeeper, Justice, Town Clerk, & Tax Collector. This will be done during the organizational meeting held on January 10, 2017. This will be done every year going forward.

- **Implementation Date:**

The 2016 departments will be audited in January of 2017.

- **Person Responsible for Implementation:**

Supervisor and Town Board

Signed: _____

Name David Vincent

[Title] Supervisor

10/28/16

Date

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials and reviewed various financial records and reports related to the Town's financial operations to gain an understanding of the Town's procedures for reporting financial transactions and claims auditing.
- We assessed the adequacy of the monthly financial reports the Supervisor provided to the Board during our audit period.
- We reviewed a random sample of 100 check disbursements that were made to pay claims during our audit period. We determined whether their corresponding claims were supported by adequate documentation, for appropriate Town purposes and audited and approved prior to payment in accordance with Town Law. We used a computerized random number generator to select 100 accounts payable checks that were issued by the Town during our audit period.
- We compared the price per gallon paid by the Town for all diesel fuel and heating fuel purchases from January 1, 2014 through June 30, 2016 to the applicable State contract price per gallon to determine if the Town's purchase price was equal to State contract pricing. We also interviewed Town officials, OGS employees and an employee of the vendor from which the fuel purchases were made to determine the cause of any purchase price that was in excess of State contract pricing.
- We interviewed Town officials and reviewed Board minutes to find evidence that the Board had audited the financial records and reports of all Town officers and employees who received or disbursed money on behalf of the Town during the 2015 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.

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AND SCHOOL ACCOUNTABILITY

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