



Town of Cincinnatus

Financial Operations

Report of Examination

Period Covered:

January 1, 2015 — April 29, 2016

2016M-238



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 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 Cincinnatus, entitled 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 Cincinnatus (Town) is located in Cortland County (County) and has approximately 1,040 residents. The Town is governed by an elected five-member Town Board (Board) composed of four Board members and a Supervisor. The Board is the legislative body responsible for overseeing Town operations, including procuring goods and services and auditing claims. The Supervisor serves as the chief executive officer and chief fiscal officer and is generally responsible for the administration and supervision of the Town's day-to-day fiscal operations. These responsibilities include maintaining the accounting records and providing the Board with timely, accurate and useful financial information. The Supervisor appointed a bookkeeper to help maintain the accounting records.

The Town provides various services to its residents, including general government support and Town road and water maintenance and improvements. The 2016 budgeted appropriations for the general, highway, water and lighting funds totaled \$656,407, which were funded primarily by real property taxes, water rents, sales tax and State aid.

Objective

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

- Did the Board provide adequate oversight of the Town's financial operations?

Scope and Methodology

We reviewed the Town's procurement and claims audit processes and related records for the period January 1, 2015 through April 29, 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 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 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 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.

Financial Operations

The Board is responsible for providing adequate oversight of the Town's financial operations. These responsibilities include ensuring that policies are reviewed and revised, as necessary, on an annual basis, and communicated to and complied with by all Town officials and employees. Further, the Board should ensure that disbursements are for legitimate Town purposes through its thorough review and approval of claims. Lastly, the Board is required to have an annual audit completed of the records for all departments that receive or disburse Town funds.

The Board should improve its oversight of Town financial operations. Although required to be reviewed annually, the Board has not updated its procurement policy in almost 20 years and did not ensure that Town officials and employees followed it. Further, the claims audit process was inadequate, and the Board did not ensure an annual audit was completed for the departments that received or disbursed funds.

Procurement

General Municipal Law (GML) generally requires the Board to advertise for bids on contracts for public works involving expenditures of more than \$35,000 and on purchase contracts involving expenditures of more than \$20,000. Exceptions from competitive bidding requirements include purchasing through a New York State Office of General Services (OGS) contract or a County contract.

GML also stipulates that goods and services which are not required by law to be procured pursuant to competitive bidding must be procured in a manner to assure the prudent and economical use of public money in the best interest of Town residents, to facilitate the acquisition of goods and services of maximum quality at the lowest possible cost under the circumstances, and to guard against favoritism, improvidence, extravagance, fraud and abuse.

The Town's procurement policy, last updated in August 1996, provides guidance on the procurement of goods and services subject to competitive bidding along with procurement methods for purchases not required to be competitively bid (items costing less than the bidding thresholds of \$10,000 for purchase contracts and \$20,000 for public work contracts).

The policy also outlines specific dollar threshold requirements for obtaining and maintaining written quotes (for purchases costing more than \$3,000 but less than \$10,000 and public works costing more than \$3,000 but less than \$20,000). The policy further provides

for certain exceptions from obtaining bids and quotes, such as for purchases obtained from certain County, federal or OGS contracts; emergency situations when time is a crucial factor; or from sole source vendors when soliciting competition is not possible. However, in these situations, the policy requires that adequate documentation be maintained to support the actions taken.

We reviewed five purchases totaling approximately \$160,500 that exceeded the policy's competitive bidding thresholds and three purchases totaling approximately \$21,600 that required written quotes. These purchases included a dump truck – \$74,000, paving – \$36,000, water main repairs – \$21,300, ice control sand – \$14,900, diesel fuel – \$14,300, a fire alarm – \$9,300, salt – \$8,800 and ice control sand – \$3,500.

Town officials did not comply with the policy for six of these purchases totaling \$99,300 (four purchases requiring competitive bids and two requiring written quotes). While Town officials attempted to solicit competition for the paving, fire alarm and ice control sand totaling \$60,200, they either did not use the method required by the policy or did not maintain documentation to support their decision.

Town officials told us that the water main repairs were for an emergency situation and the smaller purchase of ice control sand was obtained from a sole source supplier. While these were qualifying exceptions to competitive bidding and obtaining quotes, officials did not maintain any supporting documentation to show whether these purchases met the policy's stipulated exceptions.

Additionally, Town officials told us that diesel fuel was obtained from the County-awarded OGS contract. However, based on our review of the contractual prices in effect at the time of delivery, the Town paid more than the OGS contract price. Our review of all 34 diesel fuel claims disclosed that, although the Board approved these purchases, the Town paid between \$1,218 and \$1,421 more than the OGS contract price for diesel fuel.

Claims Audit

New York State Town Law requires the Board to audit and approve claims before the Supervisor can disburse payment. However, the Board may, by resolution, authorize payment in advance of audit for public utility services, postage, freight and express charges. These prepaid claims must be presented for audit at the next Board meeting. The Board should also be presented with warrants itemizing each claim by fund for approval.

The Board did not ensure that all claims were properly presented, audited and approved before payment. The claims were not

prenumbered and were presented to the Board for audit and approval without itemized warrants by fund. Additionally, the Board adopted a resolution, for which there was no legal authority, allowing the Supervisor to pay claims before the Board audited and approved them to avoid late fees.

We tested 91 claims totaling \$206,200 and found that, except for minor discrepancies which we discussed with Town officials, these claims were for proper Town purposes. However, the Supervisor prepaid 14 claims totaling \$50,400, which included payments for dental and health insurance, Justice Court fees, retirement contributions, check stock, water main repairs, contractual engineering services, park supplies and ice control sand, before Board audit and approval, without the legal authority to do so.

In addition, five of these claims totaling \$2,700 for dental insurance, telephone and electric service, a basketball hoop and a Justice Court payment to the State Comptroller's office were never audited and approved by the Board. Further, we were unable to trace any of these claims to the Board minutes because the minutes did not always include the claim numbers and amounts approved each month.

The Board's lack of adequate oversight occurred due to a general lack of training and awareness of its fiscal roles and responsibilities. Board members told us that they relied on other Town officials' decision making processes to effectively manage the Town's financial operations. As a result, there is an increased risk that the Town could pay for goods and services that were not obtained in the most economical manner or were not for legitimate Town purposes. Furthermore, had Town officials reviewed the amount the Town was paying for diesel fuel and compared it with the OGS contract price, they could likely have obtained diesel fuel at a significantly lower price. These risks are further heightened because the Board did not require an annual audit of the records for all departments receiving or disbursing funds, which could detect errors or irregularities.

In August 2016, we provided Town officials training on fiscal oversight responsibilities, which included the deficiencies we identified in this report. The Board, Supervisor, Town Clerk, deputy town clerk, deputy highway superintendent and bookkeeper attended this training. We commend officials for being receptive to the training provided.

Recommendations

The Board should:

1. Continue using the training resources available through OSC that can be accessed on our website at <http://www.osc.state.ny.us/localgov/training/index.htm>. Review the publication

issued by OSC, entitled *Information for Town Officials*, which can be accessed on our website at <http://www.osc.state.ny.us/localgov/pubs/publisting.htm>

2. Annually review and update the procurement policy, as necessary, and ensure that the requirements for competitive bidding, and obtaining quotes and the related documentation to be maintained are communicated to and complied with by Town officials and employees.
3. Ensure that deliberate and thorough audits of claims are conducted prior to payment, unless otherwise authorized by law, and that each claim is sufficiently itemized on a warrant.
4. Ensure that the financial records of all Town officials and employees who receive or disburse Town funds are audited annually.

Town officials should:

5. Ensure they are following the competitive bidding, quotation and related documentation requirements of the procurement policy when obtaining goods and services on behalf of the Town.

The Town Clerk should:

6. Document in the Board minutes the claims or sequence of claims audited and approved by the Board by fund and amounts.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF CINCINNATUS

PO Box 313
2770 Cincinnatus Rd.
Cincinnatus, New York 13040

Office of the State Comptroller
Binghamton Regional Office
44 Hawley Street – Suite 1702
Binghamton, New York 13901-4417

AUDIT REPORT: January 1, 2015 through April 28, 2016

This is the response to the audit report of January 1, 2015 through April 28, 2016.

The Town Supervisor has taken in to consideration the recommendations and made corrective measure to ensure that the Town takes the responsibility to oversee the Town's operations in the best interest of the Cincinnatus Tax payer's.

October 13, 2016

AUDIT REPORT: January 1, 2015 through April 29, 2016

Audit Report Title: Town of Cincinnatus

Audit Report Number: ?

OBJECTIVE:

The objective of this audit was to review the Town's financial operations. The Board as the legislative body has the responsibility to oversee the Town's operations, including the procurement of goods and services and auditing claims.

Audit Recommendation: Recommendation was to update the procurement policy. The Town's procurement policy was dated August 1996.

Implementation Plan of Action: The Town's procurement policy was updated at the July Town meeting 2016.

Person Responsible for Implementation: Luann King – Supervisor

Audit Recommendation: Purchases exceeding the policy's competitive bidding thresholds to be updated.

Implementation Plan of Action: The town Board revised the Policy concerning competitive bidding. This was updated at the Town Board meeting July 2016.

Person Responsible for Implementation: Luann King – Supervisor

Audit Recommendation: To review the contractual prices for fuel.

Implementation Plan of Action: The town has signed a contract with the Cincinnatus Central School to use a central fueling station. This will ensure the OGS contract price for the Town Highway.

Implementation Date: August 11, 2016

Person Responsible for Implementation: Luann King – Supervisor

Audit Recommendation: To ensure that all claims were properly presented and audited and approved before payment.

Implementation Plan of Action: The Town supervisor and the Town Clerk will be sure that each voucher is properly presented for audit with itemizing the purchases. Each department voucher will be pre-number beginning with the number 1.

The minutes will reflect each month the total amount warranty to pay.

Audit Recommendation: Ensure that the financial records of all Town officials and employees who receive and/or disburse Town funds are audited annually.

Implementation Plan of Action: The Town board will receive an annual report of funds from each of the departments. Those departments being Justice, Town clerk and Tax collector.

Implementation Date: The Town Board will receive the annual reports for 2016 at the February 2017 board meeting for audit.

Person Responsible for Implementation: Luann King - Supervisor

Audit Recommendation: That the Board receives training and awareness of its fiscal roles and responsibilities.

Implementation Plan of Action: Schedule a mandatory training session for all Town board member and Town officials.

Implementation Date: August 4, 2016

Person Responsible for Implementation: Luann King – Supervisor

Audit Recommendation: Document in the Board minutes the claims or sequence of claims audited and approved by the Board by fund and amounts.

Implementation Plan of Action: Recording in the minutes will state sequence of claims audited and approved by the Board by fund and amounts.

Implementation Date: January 1, 2017

Person Responsible for Implementation: Joanne Perkins – Town Clerk

Signed:

Luann King
Town Supervisor

10/13/2016

October 13.2016

Town Council Persons

Mark Christian

Jonathan McKee

Steve Mudge

Michael Stafford

-----**TOWN OF CINCINNATUS**-----

**2770 Lower Cincinnatus Road
POB # 313
Cincinnatus, New York 13040**

Joanne Perkins - Town Clerk

October 8, 2016

Office of the NYS Comptroller
Binghamton Regional Office
NY State Office Building
44 Hawley Street, Room 1702
Binghamton, NY 13901

PSU - CAP Submission
Audit Report: January 1, 2015 through April 29, 2016
Audit Report Title: Town of Cincinnatus
Audit Report Number: 2016M - 238

Audit Recommendation for the Town Clerk:

Document in the Town Board Minutes, the claims or sequence of claims audited and approved by the Town Board by Fund and Amounts.

Implementation Plan of Action:

The Town Clerk will include in the Town Board Minutes the Documentation of claims audited and approved by the Town Board by Funds and Amounts at each Month's Meeting as presented..

Implementation Date: January 1, 2017.

Person Responsible for Implementation: Joanne Perkins, Town Clerk.

Signed:

October 13, 2016
October 13, 2016

Joanne Perkins, Town Clerk
2628 Lower Cincinnatus Road
Cincinnatus, N.Y. 13040

cc: Luann King, Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed the Town's procurement policy and Board minutes and interviewed Town officials to gain an understanding of the procurement, claims audit and approval processes and whether the Board audited or caused to be audited the records of all Town departments that receive or disburse funds.
- We judgmentally selected a sample of eight purchases that were paid during the audit period for examination. We selected all purchases that exceeded the GML bidding thresholds, three purchases that exceeded the Town's procurement policy bidding requirements and three purchases that exceeded the policy's requirements for written quotes.
- We reviewed competitive bidding and written quote documentation for our sample purchases to determine whether the Town acquired these goods at the lowest possible cost.
- We searched the OGS website for contracts awarded for diesel fuel to determine if all diesel fuel the Town purchased during the audit period was obtained at the OGS contract price.
- We judgmentally selected the months of June 2015 and January 2016 and traced all 61 nonpayroll canceled check images that cleared the bank totaling \$143,700. We traced these canceled check images to the claims to ensure they matched, contained proper departmental approvals, had sufficient supporting documentation, were for proper Town purposes and were audited and approved by the Board prior to payment when required.
- We judgmentally selected 30 nonpayroll claims from the canceled check images from January 1, 2015 to April 30, 2016 for those we deemed to be higher risk, such as payments made to Town officials, unusual or unknown vendors and higher dollar amounts or potentially questionable purchases totaling \$62,550. We traced these canceled check images to the claims to ensure they matched, contained proper departmental approvals, had sufficient supporting documentation, were for proper Town purposes and were audited and approved by the Board prior to payment.

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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AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

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