



# Town of Dresden

## Board Oversight of Financial Activities

### Report of Examination

Period Covered:

January 1, 2010 — March 31, 2012

2012M-191



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
<b>BOARD OVERSIGHT OF FINANCIAL ACTIVITIES</b>	5
Accounting Records	5
Financial Reporting	7
Property Tax Cap Filing	8
Annual Audit	8
Recommendations	9
<b>APPENDIX A</b> Response From Local Officials	11
<b>APPENDIX B</b> Audit Methodology and Standards	12
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	14
<b>APPENDIX D</b> Local Regional Office Listing	15

# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

January 2013

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 Dresden, entitled Board Oversight of Financial Activities. 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 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 Dresden (Town) is located in Washington County and has a population of approximately 650 residents. The Town is governed by an elected five-member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four councilpersons. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for performing the basic accounting functions, including maintaining accounting records, providing monthly financial reports to the Board, and filing annual financial reports with both the Town Clerk and the Office of the State Comptroller.

The Town provides various services to its residents, including highway maintenance, snow removal, sewer service, and general government support. These services are financed primarily by real property taxes, sewer rents, and State aid. Budgeted appropriations were \$955,411 for 2011 and \$954,272 for 2012.

## Objective

The objective of our audit was to determine if Town officials provided adequate oversight of the Town's financial activities. Our audit addressed the following related question:

- Did the Board provide adequate oversight to ensure that financial activities were accurately recorded and reported in a timely manner?

## Scope and Methodology

We examined the Supervisor's records for the period January 1, 2010, through March 31, 2012. Because of the Town's lack of financial reports, we also scanned bank statements and financial transactions to determine if financial transactions appeared reasonable and appropriate for Town purposes.

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.

## 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 were also given an opportunity to respond within 30 days in writing to our findings and recommendations. We did not receive a written response within this time frame.

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 Town to make this plan available for public review in the Town Clerk's office.

## Board Oversight of Financial Activities

The Board is responsible for the Town's overall financial management, including monitoring and evaluating financial condition. To adequately evaluate financial condition, it is essential that complete, accurate and timely accounting records are maintained to properly account for and report the Town's financial condition and activities. The lack of adequate and timely accounting records makes it difficult for the Supervisor and Board to evaluate the Town's financial activities, and inaccurate records can obscure the Town's true financial condition. Although the Supervisor has primary responsibility for managing the Town's day-to-day activities, the entire Board shares responsibility for fiscal oversight and establishing a system of financial reporting.

The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions including maintaining detailed accounting records, providing monthly reports to the Board and filing the Town's annual update document (AUD) with the Office of the State Comptroller (OSC) within 60 days of the year-end. The Supervisor also has the responsibility to prepare the annual property tax cap filing and submit the proposed tax levy or Board waiver to OSC. In addition, the Supervisor must prepare monthly bank statement reconciliations to ensure the timely identification and correction of differences between the Town's recorded cash balances and its bank balances.

We found that the Supervisor has not fulfilled even the most basic of financial responsibilities. Financial records are incomplete or missing and there is no way to accurately determine the Town's financial condition. In addition, given the lack of records and the Supervisor's control over all aspects of the Town's finances, there is no way to be sure that all funds have been accounted for and used solely for Town purposes. In addition, the Supervisor has ignored and not complied with State laws and requirements. The deliberate non-compliance by the Supervisor has prevented the Board from fulfilling its oversight responsibilities.

### Accounting Records

The Supervisor is required by Town Law to maintain a complete and accurate account of the receipt and disbursement of all moneys. Accordingly, general ledgers, cash receipt and disbursement journals, and subsidiary revenue and appropriation ledgers must be maintained in a complete, accurate, and timely manner. It also is important that the Supervisor perform monthly reconciliations of its bank statement balances and the cash balances per the Town records. Any differences must be promptly documented and resolved to ensure that financial activities are accounted for in a proper and timely manner.

The Supervisor did not maintain complete or timely accounting records. The Supervisor records the Town's cash receipts in a manual pre-numbered receipt book and cash disbursements on the abstract of claims. Subsequently, he inputs the receipts and disbursements information into the Town's computerized accounting program. The computerized records are only used to record revenues and expenditures and do not include any asset accounts such as cash and accounts receivable accounts, liabilities such as an accounts payable account, or fund balance accounts.

In April 2012, when we requested the records that account for cash balances the Supervisor provided us with his manual checkbook; however, he does not record deposits or maintain a running cash balance, in the checkbook register. Instead, he only records the checks he has written. In addition, the Supervisor does not perform bank account reconciliations or keep the bank statements on file. As a result, when we asked him for certain bank statements, he had to request 12 duplicate bank statements<sup>1</sup> from the bank because he was unable to locate and provide us the original bank statements.

During May 2012, the Supervisor provided us with the computerized accounting records for the 2010 general and highway fund cash receipts and disbursements. We also requested the 2010 computerized accounting records for the Town's two sewer districts; however, he did not provide us with those records. Furthermore, we also requested the 2011 records; however, the Supervisor indicated that he did not enter all the 2011 cash receipts and disbursements into the Town's computer system. He told us that he had entered approximately one-half of 2011 data into the computerized accounting system, but he did not provide any records for us to either verify this assertion or to review the entries he had completed for accuracy. Consequently, the Supervisor was unable to provide the accounting data that would demonstrate the Town's account balances, results of operations, and financial condition as of December 31, 2011.

Because the Supervisor failed to maintain timely and complete accounting records, he was unable to provide timely financial data to allow the Board to effectively determine account balances, monitor the Town's financial condition, and assess the adequacy of the budget estimates. The Supervisor's failure to perform bank reconciliations increases the risk that financial data is incomplete and/or that unauthorized transactions could occur without timely detection.

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<sup>1</sup> The 12 bank statements missing were as follows: February 2010 sewer checking, payroll checking, and housing checking; January 2011 housing and justice equipment checking; October 2011 trust and agency checking; January 2012 general, sewer, payroll, trust and agency, and highway checking; and February 2012 highway money market account.

Due to the inadequacy of the accounting records and the lack of adequate Board oversight, we examined cash receipts for the general and highway funds and the sewer districts that were recorded in the Town's manual pre-numbered receipt book. We judgmentally selected 37 receipts from the months of May 2010, December 2010, January 2011, and June 2011 totaling \$734,339 to determine whether the receipts in the manual pre-numbered receipt book were deposited in the bank intact and in a timely manner. Except for one small deposit that was made late, all receipts tested were deposited intact and in a timely manner. In addition, for the 2010 general and highway funds, we traced the same receipts from the manual receipt books to the computerized accounting records and found all receipts selected for testing were recorded. The Supervisor did not provide the 2010 computerized accounting records for the sewer districts; therefore, we could not determine if the receipts posted in the manual receipts book were posted to the computerized records.

For our audit period, we requested all the abstracts of claims<sup>2</sup> for the general and highway funds and the two sewer districts along with the corresponding vouchers and supporting documentation. The Supervisor was unable to provide 34 of the 108 abstracts,<sup>3</sup> or approximately 31 percent of the abstracts, and informed us that they were in his home office but he could not locate them.

The Supervisor also performed transfers between various Town bank accounts with no Board oversight. Due to the lack of oversight with bank account transfers, the lack of bank statement reconciliations, and the failure to keep bank statements on file, we tested all 336 bank transfers, totaling approximately \$2.6 million made during our audit period. We found that all of the bank transfers were transferred to other Town bank accounts and could be accounted for.

## **Financial Reporting**

The Supervisor is required to prepare and file an AUD with OSC. Towns with a population under 5,000 have 60 days after the end of their fiscal year to file the AUD. The AUD is an important fiscal tool that provides the Board with necessary information to monitor Town operations and provides other interested parties with a summary of the Town's financial activities.

The Supervisor has not filed an AUD for 2008 or any of the subsequent years and told us that he stopped filing because he did not receive anything in the mail telling him to file. However, our

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<sup>2</sup> There were 108 claims abstracts during our audit period. The Town prepares four separate abstracts each month for the payment of its claims, which includes the general and highway funds and sewer districts #1 and #2.

<sup>3</sup> The 34 claims abstracts not provided were 13 for the general fund, one for sewer district #1 and 20 for sewer district #2.

records show that he was mailed four letters each year reminding him of the requirement to file an annual report for a total of 20 letters. Additionally, because the Supervisor had filed AUDs in previous years, he should have been aware of the annual filing requirement. Furthermore, one Board member told us that the Board has received several delinquency notices from OSC, and the Supervisor assured the Board that he would complete and file all of the delinquent reports. The failure to prepare and file the AUD leaves the Town with no transparent means to demonstrate its financial standing to the Board, taxpayers, OSC, and any other interested parties.

Town Law also requires the Supervisor to prepare and present to the Board a monthly report which must include a detailed statement of all monies received and disbursed for that month. The monthly report must also be filed with the Town Clerk each month. Because the Supervisor did not maintain adequate accounting records, he was unable to prepare and present a monthly report to the Board. Consequently, the Board did not receive sufficient information to effectively monitor the Town's financial operations.

### **Property Tax Cap Filing**

In 2011 the State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap, that restricts the amount of property taxes local governments can levy. Under this legislation, the property tax levied annually by local governments generally cannot increase more than 2 percent, or the rate of inflation, whichever is lower, with some exceptions. Local governments are permitted to override the levy limit if certain actions are taken. The law became effective for fiscal years that begin in 2012. The Town was required to submit its 2012 property tax cap calculation and Board waiver, if applicable, by September 2011 to OSC. The legislation also stipulates that if an examination by OSC finds that the Town levied taxes in excess of the applicable tax levy limit, the Town must place an amount equal to the excess amount of the levy in a reserve fund. The creation of the reserve fund is the responsibility of the Town.

The Town did not file its 2012 property tax cap computation with OSC. Also, we determined the tax levy exceeded the 2012 property tax cap although the Board did not pass a local law to override the property tax cap. Our calculation of the property tax cap limitation resulted in the Town property tax levy exceeding the cap limit by approximately \$11,800. The excess levy for 2012 must be set aside in a reserve and used to offset the 2013 tax levy.

### **Annual Audit**

All officers and employees who receive or disburse moneys must, by Town Law, produce all pertinent books and records for audit by the Board. The audit of the pertinent books and records becomes critically important when there is a lack of segregation of duties,

where one person is responsible for receipting and depositing money, preparing and signing checks, recording all transactions in the accounting records, and receiving and reconciling bank statements. Due to the small size of the Town, there is a lack of segregation in the recordkeeping and reporting duties performed by the Supervisor, Town Clerk, and Justices.

The Board did not audit the books and records of the Supervisor or Town Clerk. One Board member indicated that the Board reviewed the records of the two Town Justices. We interviewed three of the four Board members and were informed that the books and records of the Supervisor were not audited because the records were not made available to the Board. Furthermore, the two newest Board members stated that they were not aware of the Board's responsibility to audit the records of the Supervisor, Town Clerk, or Justices.

The Board's failure to examine accounting records and reports hinders its ability to maintain accountability over the Town's financial operations and develop safeguards to protect Town assets from loss, waste or abuse. Without an annual audit, Town officials are at risk of failing to detect and correct errors, irregularities, or fraudulent activity in a timely manner.

## **Recommendations**

1. The Board should confer with the Town's attorney to determine what actions it can take to ensure the Supervisor performs his required financial duties.
2. The Supervisor should maintain accounting records to ensure that all records are complete, accurate, and up-to-date.
3. The Supervisor should perform monthly bank account reconciliations for all accounts and keep all bank statements on file. Furthermore, a copy of the reconciliation and bank statement should be included in the Supervisor's monthly report to the Board.
4. The Supervisor should file the previous years' AUDs and ensure all future year AUDs are filed with OSC within 60 days of year end.
5. The Supervisor should present monthly financial reports to the Board.
6. The Supervisor and Board should calculate the Town's annual property tax cap limit in a timely manner and ensure the Town submits the property tax cap filing to OSC in a timely manner.

7. The Board must create and fund a reserve account equal to the excess amount of the property tax levy for 2012 and use the reserve to offset the 2013 property tax levy.
8. The Board should annually audit the records of the Supervisor, Town Clerk, and Justices.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

Town officials were given an opportunity to respond within 30 days in writing to our findings and recommendations. We did not receive a written response within this time frame.

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if Town officials provided adequate oversight of the Town's financial activities. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We inquired of Board members to determine the type and frequency, if any, of the financial reports that have been provided by the Supervisor and the Board's awareness that the Supervisor failed to file the AUD and the property tax cap filing with OSC.
- We obtained all bank statements for the period January 1, 2010, through March 31, 2012.
- We confirmed with the bank that the Supervisor provided a complete list of bank accounts and that there were no additional bank accounts in the Town's name.
- We requested all computerized accounting records, receipts, and claim abstracts with supporting documentation. Because the computerized accounting records were not complete and there were significant missing claim abstracts, we performed a claims test to determine that the sample judgmentally selected was properly authorized, supported and for a reasonable Town purpose. The judgmental sample was selected based on a review of canceled check images provided with the bank statements. We also reviewed canceled check images for the months where abstracts and supporting documentation was not provided to determine whether there were any obvious claims paid that would indicate fraud, abuse, or misuse of Town funds.
- Due to the inadequacy of the accounting records provided by the Supervisor, we selected a judgmental sample of revenue receipts to determine whether the receipts selected for testing were deposited intact and in a timely manner.
- Due to the inadequacy of the accounting records provided by the Supervisor, we recalculated cash balances and unassigned balances for the general fund for December 31, 2010, and December 31, 2011. We also calculated cash balances and assigned fund balances for the sewer funds and highway funds for December 31, 2010, and December 31, 2011. We used the revenues and claims paid as evidenced in the bank statements.
- Due to the lack of segregation of duties over the Supervisor's financial duties, inadequacy of accounting records, and the lack of effective Board monitoring, we tested all interbank transfers to determine whether the transfers were made in a timely manner, intact and to another Town-owned bank account.
- We recalculated the property tax cap levy limitation for the 2012 budget year because the Town did not file the property tax cap levy information with OSC.
- We interviewed Board members to determine if the Board audited, or caused to be audited, the records and reports of all officers and employees who received and disbursed moneys.

We conducted this performance audit in accordance with generally accepted government auditing standards (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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