

Town of Alfred

Incompatible Duties

NOVEMBER 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Town of Alfred

Audit Objective

Determine whether the Town of Alfred (Town) Supervisor (Supervisor) properly appointed and the Town Board (Board) and Supervisor properly monitored the bookkeeper.

Key Findings

The Supervisor did not properly appoint, and the Board and Supervisor did not properly monitor, the bookkeeper.

- The Supervisor appointed the Town Clerk (Clerk) as bookkeeper which is an incompatibility of office and duties. As a result, checks and balances over the powers and duties of these positions was not maintained.
- The Supervisor did not ensure the Clerk, while acting as the Supervisor's bookkeeper, prepared and filed the Town's annual update documents (AUD) as required.
- The Board did not audit the Town's books and records, as required.

Key Recommendations

- Ensure that the bookkeeper's appointment does not result in an incompatibility of duties.
- Ensure that AUDs are completed and filed when required.
- Ensure that an annual audit of the Supervisor's records is conducted.

Town officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action. Appendix B includes our comment on an issue that was raised in the Town's response letter.

Background

The Town is located in Allegany County (County) and is governed by an elected five-member Board, which includes the Supervisor. The Board is responsible for the oversight and general management of the Town.

The Supervisor is the Town's chief fiscal officer and is generally responsible for the administration and supervision of the Town's day-to-day fiscal operations. These duties include maintaining the accounting records, providing monthly reports to the Board and completing and filing AUDs with the New York State Office of the State Comptroller (OSC).

The Supervisor appointed the Clerk as his bookkeeper beginning January 1, 2014 to assist him with his day-to-day fiscal responsibilities.

Quick Facts

2021 Total Budget Appropriations	\$858,878
Approximate Population	5,200

Required AUD Filings

Year	Days Late
2016	118
2017	792
2018	578
2019	274
2020	33

Audit Period

January 1, 2020 – April 29, 2021.
We extended our audit period back to January 1, 2017 to analyze annual financial report submission dates.

Incompatible Duties

How Does a Supervisor Properly Appoint and a Board and Supervisor Properly Monitor a Bookkeeper?

To properly appoint a bookkeeper, a supervisor must ensure there are no issues of incompatibility between the bookkeeper and the duties of that position. For instance, in a town that does not have a town comptroller, a town clerk (clerk) would have several duties incompatible with serving as a bookkeeper. For example, a clerk is responsible for attesting to a supervisor that claims have been audited and approved by a board prior to the supervisor making payments on the claims. In addition, a clerk turns over funds they have collected to a supervisor. The separation of duties between the office of a supervisor, or appointed bookkeeper, and clerk is intended to provide checks and balances over the powers and duties of these positions and is important for internal control purposes.

A supervisor and board must also provide adequate oversight over the duties performed by a bookkeeper to ensure a town's financial activity is properly recorded and reported. This includes ensuring a town's annual financial report is properly filed with OSC. A board, as a town's governing body, is responsible to annually audit, or cause an annual audit of, the records and reports of any town officer or employee who received or disbursed funds on the town's behalf. This includes a supervisor's records and reports maintained by an appointed bookkeeper.

The Supervisor Did Not Properly Appoint the Bookkeeper

The Supervisor appointed the Clerk as his bookkeeper beginning January 1, 2014, assigning her responsibility for maintaining the Supervisor's accounting records and assisting with day-to-day fiscal duties. The Clerk is responsible for, among other duties, maintaining most Town records and issuing and collecting fees for licenses, permits and certificates. The Clerk is also responsible for collecting and remitting Town and County real property taxes to the Supervisor and County Treasurer. Before the current Supervisor, the Clerk served as the bookkeeper to the Town's former supervisors for approximately 20 years.

A 1995 OSC audit report of the Town reported on the incompatibility of appointing the Clerk as the bookkeeper by prior supervisors and recommended against it. However, despite being aware of these previous findings, the current Supervisor continued the practice of appointing the Clerk as the bookkeeper when he was elected in 2014.

As the bookkeeper, the Clerk was responsible for receiving, processing and recording the payment of all claims. The Clerk was also responsible for processing and recording all payroll payments and completing and filing annual financial reports. According to the New York State Attorney General's Office, this

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appointment is incompatible and significantly weakens the controls established by New York State Town Law, which results in a heightened risk for fraud.

To determine if these internal control weaknesses were exploited, we reviewed 94 claim vouchers totaling approximately \$203,000 and 46 payroll payments totaling approximately \$53,000 to determine whether they were properly authorized and were for proper Town purposes. We also reviewed \$591,000 of real property tax receipts and \$200 in Clerk fees received by the Clerk to determine whether the collections and fees were properly remitted to the Supervisor. While we found no exceptions with the claims and payroll payments made, we did find that real property tax payment interest and penalty collections and Clerk fees were not remitted to the Supervisor in a timely manner.

The Clerk, acting as real property tax collector, is required to remit all real property tax collections to the Supervisor on a weekly basis. This includes the collection of interest and penalties which are applied to real property tax payments made on or after February 1.

We reviewed all of the Town's tax collector bank account activity in 2020 in conjunction with the Town's 2020 real property tax collection settlement (reconciliation) with the County and found that while tax collections were generally remitted on a weekly basis, interest and penalties collected were not. Instead, the Clerk made one remittance of all interest and penalties collected, totaling \$2,700, in April 2020 although she started collecting interest and penalties as of the beginning of February 2020. We also found that Clerk fees collected were not remitted to the Supervisor by the 15th of the following month, as required (Figure 1).

Figure 1: Clerk Fee Remittances

Month	Due Date	Check Date	Days Late
January 2020	2/15/20	2/28/20	13
February 2020	3/15/20	4/21/20	37
March 2020	4/15/20	4/21/20	6

In addition, as of March 23, 2021, Clerk fees collected for January 2021 had not been remitted to the Supervisor and was at that point 35 days overdue.

The Supervisor told us he was unaware he should have received fees collected in the prior month by the Clerk by the 15th of each month. The Supervisor also told us he felt it was important to keep the position of the Clerk full-time by including the bookkeeper's duties as the Town had done in the past. Both he and the Clerk indicated the Clerk expected to retire from the Town in 2021 and at that time, that he and the Board would be separating the two positions.

When incompatible duties are not segregated it increases the risks that either mistakes could occur and go undetected and uncorrected, or that fraud could occur and go undetected.

The Supervisor and Board Did Not Properly Monitor the Bookkeeper

The Supervisor and Board did not provide adequate oversight over the duties performed by the Clerk, acting as the Supervisor’s bookkeeper, to help ensure the Town’s financial activity was properly recorded and reported. While the Clerk submitted written monthly financial reports to the Board for review and discussion, the Supervisor did not review the monthly reports beforehand or compare them to other records to ensure accuracy. For example, the Supervisor did not ensure that the Clerk conducted bank reconciliations. Further, the Board did not annually audit the Supervisor’s records, which the Clerk maintained while serving as the Supervisor’s bookkeeper.

To assess the potential risk to the Town’s cash position, we evaluated the cash amounts the Clerk recorded in the Town’s financial records to the cash amounts on deposit in the Town’s bank accounts. We found no exceptions.

Figure 2: AUDs

Fiscal Year	Due Date	Date Filed	Days Late
2016	4/1/17	7/28/17	118
2017	4/1/18	6/1/20	792
2018	4/1/19	10/30/20	578
2019	4/1/20	12/31/20	274
2020	4/1/21	5/4/21	33

In addition, the Supervisor and Board did not review to ensure that their annual financial reports, in the form of the AUD, were properly completed and submitted to OSC when required. As detailed in Figure 2, the AUDs were filed late for fiscal years 2016 through 2019. This included one AUD (2017) that was over two years past due. In addition, as of the end of our fieldwork on April 29, 2021, the 2020 report had not been submitted as required. However, Town officials took action shortly after we discussed our preliminary audit findings with them. The delinquent 2020 annual report was filed on May 4, 2021.

According to the Clerk, the Supervisor recently aided her in completing the 2019 AUD. However, prior to that the Clerk was solely responsible for completing and filing the AUDs. When annual financial reports are not completed and filed when required, it increases the risks associated with the Board making significant financial decisions without having up-to-date financial information to base those decisions on.

The Supervisor told us he was unaware that the annual audit requirement also applied to his records. The Clerk told us that she prioritized her efforts each week on tax collections and bookkeeping, not her Clerk responsibilities or filling the AUDs when due. The Clerk also told us she was unaware that weekly real property tax remittances to the Supervisor were supposed to include the interest and penalties collected, instead of in one remittance at the conclusion of the collection period.

What Do We Recommend?

The Supervisor should:

1. Properly appoint a bookkeeper and ensure there is no incompatibility of duties.
2. Ensure all fees are received when due, including Clerk fees and interest and penalties on real property taxes.
3. Ensure that all Town bank accounts are reconciled monthly and review to ensure they are accurate.
4. Review monthly financial reports submitted to the Board to ensure they are accurate.

The Board should:

5. Perform an annual audit of, or retain an independent public accountant to audit, the Supervisor's records.

The Supervisor and Board should:

6. Ensure AUDs are completed and filed when required.

Appendix A: Response From Town Officials



Established 1808

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Offices of:
Supervisor - Town Board - Town Clerk – Assessor
Code Enforcement Officer - Dog Warden
Superintendent of Highways

September 29, 2021

Jeffery D. Mazula, Chief Examiner
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Response to Preliminary Draft
Town of Alfred Examination

Below are our responses to the recommendations beginning on page six of the preliminary draft.

1. The town board contracted with an outside accounting service to provide bookkeeping services beginning July 5, 2021. The position of clerk was converted to part-time as of July 5, 2021.
2. The supervisor will conduct a monthly review to assure that all fees and interest and penalties on real property taxes are received when due.
3. All bank reconciliations will be done by our outside accounting service; the supervisor will review these each month.
4. The supervisor will review monthly financial statements that are submitted to the board.
5. The board has designated a member of the board to conduct an annual audit of the supervisor's records.
6. The board and supervisor will monitor the filing of AUDs to be sure these are filed in a timely fashion.

See
Note 1
Page 7

Dan Acton, Supervisor

Appendix B: OSC Comment on the Town's Response

Note 1

Collectively as a board, unless it is the records of the supervisor being reviewed in which case the supervisor must exclude themselves, all of its members are responsible to annually audit or cause an annual audit of the records and reports of any town officer or employee who received or disbursed funds on the town's behalf.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and employees to gain an understanding of the Supervisor's bookkeeper appointments and the current practices relating to the work responsibilities of the Clerk.
- We reviewed the Board's meeting minutes from January 2020 through January 2021 for evidence that an annual audit of the Supervisor's 2019 and 2020 records had been conducted. We also interviewed a Board member and Town officials to determine whether an annual audit of the Supervisor's records had been conducted and if not, why.
- We reviewed the Town's annual financial report submission dates to assess whether the reports were submitted in a timely manner. We also reviewed the monthly financial reports submitted to the Board to assess whether the Supervisor reviewed them beforehand to ensure they were accurate. We also interviewed Town officials to determine who was responsible for completing and filing these reports.
- We interviewed Town officials to determine who had the care and custody of Town funds prior to and after deposit and whether monthly bank reconciliations were performed and reviewed by the Supervisor. We also compared cash reported at fiscal year-end 2019 to cash on deposit to determine if it was properly accounted for.
- We reviewed all payroll payments made to the Supervisor and Clerk, for all of 2020 as well as January and February 2021, to ensure they were paid the Board-approved compensation. We selected the Supervisor and the Clerk because they were responsible for processing, approving and distributing the Town's payroll payments.
- We reviewed all claims paid from the Town's main operating funds (general and highway funds) from January through March 2020 to ensure payments were properly supported and were for appropriate Town purposes.
- We reviewed all real property tax collections remitted to the Supervisor for all of 2020, the Town's 2020 real property tax collection settlement report with the County and the Town's tax collector bank account activity for all of 2020 to determine whether collections, interest and penalties were properly remitted to the Supervisor in a timely manner.
- We reviewed Clerk fees collected in January to March 2020 and in January 2021 to determine whether fees were properly remitted to the Supervisor in a timely manner.

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.

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.

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 provided 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 the CAP available for public review in the Town Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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www.osc.state.ny.us/local-government/publications

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www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

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www.osc.state.ny.us/local-government/required-reporting

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