

Town of Berne

Board Oversight

SEPTEMBER 2021



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

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Report Highlights

Town of Berne

Audit Objective

Determine whether the Town of Berne (Town) Board provided adequate oversight of financial operations.

Key Findings

The Board did not provide adequate oversight of financial operations and exceeded its authority under New York State Town Law (Town Law) by authorizing the Supervisor to pay all expenditures without prior audit. The Board did not:

- Request or receive adequate monthly reports from the Supervisor. For example, the Board did not request or receive monthly cash reports detailing money received and disbursed, monthly bank reconciliations or cash balances for each fund.
- Ensure bank reconciliations were accurate, timely, and properly reviewed. As a result, we found three significant unreconciled variances between the accounting records and the bank records ranging from about (\$135,800) to \$31,600.
- Audit the 170 claims totaling \$166,792 reviewed or audit any credit card charges totaling \$8,308 before payment was made, or annually audit the records of all officials who received and disbursed funds, as required.

Key Recommendations

- Ensure the Supervisor provides adequate monthly financial reports to the Board, that all bank reconciliations are prepared timely, accurately, and are properly reviewed.
- Perform a deliberate and thorough audit of claims, and annually audit the records of all officials who receive and disburse funds, as required.

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, located in Albany County, is governed by an elected Town Board (Board) composed of four Board members and the Supervisor.

The Board is responsible for the general oversight of all operations and finances.

The Supervisor is the chief executive and chief fiscal officer. The bookkeeper handles the day-to-day financial operations and prepares periodic financial reports.

Quick Facts

| | |
|----------------------------|---------------|
| Appropriations (All Funds) | \$2.6 million |
| Tax Levy | \$702,862 |
| Population | 2,771 |

Audit Period

January 1, 2020 – December 31, 2020

Board Oversight

How Should the Board Provide Oversight of Town Financial Operations?

A board is responsible for the oversight of financial operations. Boards need complete, accurate and current financial information to effectively monitor town financial operations. Each month, the supervisor is required to submit a report to the board of all money received and disbursed. The report should include reconciled cash balances for each fund and comparisons of actual revenues and expenditures to amounts estimated in the annual budget (budget status reports).

Reconciling bank account balances with the accounting records is essential to allow town officials to determine whether financial transactions are accurately recorded in a timely manner. Monthly bank reconciliations provide a way for officials to identify, correct and document differences between the town's records and bank transactions. In addition, someone independent of recording receipts, disbursements and journal entries should review bank reconciliations.

The Board Did Not Receive Adequate Monthly Financial Reports

The Supervisor submitted budget status reports, generated by the bookkeeper, to all Board members before Board meetings. However, he did not provide the Board with monthly reports of all money received and disbursed, including the cash balance for each fund or provide bank reconciliations.

The Supervisor said he believed that the budget status reports were sufficient. The bookkeeper and a Board member told us that Board members have not requested any other financial reports from the Supervisor.

We reviewed the financial reports provided to the Board for three months of our audit period and found the information provided each month was inconsistent.¹ For example, while the Board received appropriation status reports for all three months reviewed, it only received revenue status reports for two of these months.

Without complete monthly financial reports, the Board cannot exercise adequate oversight of financial operations and be aware of the Town's true financial condition.

...[W]hile the Board received appropriation status reports for all three months reviewed, it only received revenue status reports for two of these months.

Bank Reconciliations Were Inaccurate, Untimely and Lacked Proper Review

The Town has 12 bank accounts that should be reconciled to the accounting records each month. The Supervisor did not ensure that the bookkeeper completed accurate and timely bank reconciliations.

¹ Refer to Appendix C for information on our sampling methodology.

We reviewed all bank reconciliations for three months during our audit period. We found that the bookkeeper did not prepare nine bank reconciliations (33 percent). In addition, seven reconciliations (26 percent) were inaccurate and only 11 (41 percent) were properly prepared. Further, the bookkeeper did not reconcile the general fund operating accounts to the accounting records for any of the months reviewed (December 2019, September and December 2020).²

The bookkeeper told us that it was difficult to reconcile the general fund operating accounts because all non-payroll disbursements were processed through these accounts. Also, she said that in 2020, she did not prepare timely bank reconciliations because she had multiple tasks and was working from home.

As a result, the bookkeeper had to perform several months of bank reconciliations to catch up when we requested the bank reconciliations for September 2020. However, without accurate and timely reconciliations, the Board cannot be sure that all transactions are properly recorded.

We reconciled three months of all bank account statements and compared the reconciled balances to the recorded cash balances. We recalculated the accounting records balances to include unrecorded interest earned, deposits and withdrawals for each month reviewed.

We found significant unreconciled differences. For example, in December 2020, the general fund operating account had an adjusted bank balance of approximately \$1.47 million and the recalculated recorded book balance of approximately \$1.61 million, about \$135,800 less than the book balance (Figure 1). Based on our reconciliations, these differences were likely caused by transactions not being recorded in the accounting system resulting in the book balance being overstated.

Figure 1: December 31, 2020 Reconciliation Differences

| Account | Adjusted | Recalculated | Difference |
|-------------------------------|--------------|--------------|-------------|
| | Bank Balance | Book Balance | |
| General Fund Operating | \$1,470,130 | \$1,605,970 | (\$135,840) |
| Payroll Clearing | \$53,912 | \$45,176 | \$8,736 |
| Health Insurance-Trust | \$41,161 | \$9,502 | \$31,659 |

Although the Deputy Supervisor (Deputy) reviewed and signed four bank reconciliations (15 percent), he told us that he only looked at bank statements and did not review and trace information from the bank reconciliation sheets to balance sheets or general ledger reports. The Deputy began reviewing bank

...[T]he
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records for
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months
reviewed...

² Ibid.

reconciliations in December 2020 when the bookkeeper provided him with all prepared bank reconciliations for the year. However, the Deputy did not perform a proper review of the bank reconciliations to make sure adjusted bank balances agreed to general ledger reports so the bookkeeper could resolve the differences. The bookkeeper and Supervisor said they were unaware of the benefits of the independent review of bank reconciliations.

Due to the lack of proper and timely bank reconciliations and adequate review, the Board did not identify the significant unreconciled differences, which were carried forward from month to month.

How Does a Board Effectively Audit Claims?

A town board is responsible for ensuring that disbursements are for legitimate purposes, this is accomplished by thoroughly reviewing and approving claims before payment. An effective claims audit process includes a thorough and deliberate examination to determine whether the claim is a legal obligation and a proper charge against the town. A claim package should contain adequate detail and sufficient documentation for the board to make that determination.

The board is required to audit and approve all claims, with certain exceptions, such as for fixed salaries and principal or interest payments on debt, which may be paid without the normal audit process. The board may by resolution authorize payment in advance of audit for claims for public utility services, postage and freight and express charges. However, these claims must be presented and audited by the board at its next regular board meeting.

The Board Did Not Properly Audit Claims

The Town Clerk (Clerk) prepared claims as needed throughout the year, attached related supporting documentation (e.g., invoices and receiving slips) and gave the claims to the bookkeeper. The bookkeeper entered the claim information in the accounting system, prepared abstracts (lists of claims to be audited) and generated disbursement checks. She then provided the claims and abstracts to the Clerk and Supervisor for review. The Clerk signed the abstracts and the Supervisor reviewed and initialed each claim and signed the checks and abstracts. After the checks were signed the Clerk mailed out the disbursement checks.

The Clerk provided the abstract to all Board members before board meetings. However, the claims and supporting documentation were not included with the abstract. The Board did not audit and review each claim to ensure it was a proper charge and adequately supported. The Supervisor did not provide the Board with adequate information to review claims. Further, the Board did not request support for claims because Board members were unaware that an audit of claims was required.

...[T]he
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claims...
[and] Board
members
were
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claims was
required.

During its organizational meeting in January 2020, the Board passed a motion authorizing the Supervisor to pay all expenditures without prior audit. Similarly, in January 2021, the Board passed a motion authorizing the Supervisor and/or Deputy to pay all Town expenditures before audit. However, the Board does not have authority pursuant to Town Law to authorize payment of all claims in advance of audit. Therefore, the Board exceeded its authority by passing these resolutions.

The Supervisor was unaware that the claims needed to be presented to the Board. The Supervisor and Clerk felt that providing only abstracts was sufficient and all questions related to any of the claims could be addressed verbally at the monthly meetings. In addition, if a Board member wanted to see a particular claim, they could ask the Clerk to pull the claim or stop by in her office to review it.

Because of the inadequate claims auditing process, we reviewed all 170 claims totaling \$166,792 paid during February and August 2020. Although, all 170 claims reviewed were for appropriate purposes and 169 were adequately supported,³ none of them were audited by the entire Board. All 170 claims were listed on six abstracts but only three abstracts (showing 161 claims totaling \$150,731) were recorded in the Board minutes. Of these 161 claims, 144 with payments totaling \$148,200 cleared the Town's bank account before the monthly Board meetings.⁴

In addition, we reviewed all 13 claims totaling \$8,308 for credit card payments and charges during 2020. We found all credit card charges were paid without Board audit. All credit card purchases (for postage, flags, a printer and other miscellaneous items) were for proper purposes and generally supported. However, because the bookkeeper did not process credit card claims timely, fees and interest charges paid totaled \$468, or 6 percent on credit card purchases totaling \$7,840.

Due to the untimely processing and the Board's failure to review claims, the bookkeeper erroneously paid \$540 from the November 2020 statement twice. This occurred because the statement balance was carried forward to the December 2020 statement and subsequently paid.

Relying on the claims listed on the abstracts, without ensuring that the claims are adequately supported and appropriate, increases the risk that an improper disbursement could be made. This risk is compounded because the Board did not annually audit the Supervisor's records. We provided the Board with claims audit guidance available in our publication, *Improving the Effectiveness of Your Claims Auditing Process*.⁵

Although, all
170 claims
reviewed
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Board.

³ One claim for \$197 for Internet for the highway garage was not available for our review.

⁴ One claim for cell phone use was paid by an automated clearing house payment totaling \$2,559.

⁵ Available on our website at www.osc.state.ny.us/localgov/pubs/lmgm/claimsauditing.pdf.

Why Should the Board Perform Annual Audits?

The board fulfills its oversight responsibility, in part, through annually auditing, or providing for an annual audit of, the records of all town officers and employees responsible for receiving and disbursing money. These audits provide oversight of financial operations to ensure that public funds are handled properly.

The annual audits should be thorough, and the results should be documented in the board minutes. When done properly, such audits provide board members an opportunity to assess the reliability of the officers' books and records and supporting documents. Annual audits also serve to identify conditions needing improvement and provide the board with a better understanding of town operations, which is essential to effective oversight.

...[T]he
Board did
not annually
audit...the
records of the
Supervisor,
Town Clerk,
Tax Collector
or Code
Enforcement
Officer.

The Town Board Did Not Annually Audit the Records of All Officers

During our audit period, the Board did not annually audit or cause the audit of, the records of the Supervisor, Town Clerk, Tax Collector or Code Enforcement Officer.

The Supervisor told us that he was unaware of the Board's responsibility to annually audit the records of all Town officers who receive and disburse funds during the year. The Board completed an audit of the records for each of the two Justices for 2019 in January 2020. However, as of January 22, 2021, the Board had not performed an audit of the Justices for 2020.

Without a proper annual audit, the Board's ability to provide adequate oversight of financial operations is diminished and errors or irregularities could occur and remain undetected and uncorrected. We provided the Board with annual audit guidance available in our publication, *Fiscal Oversight Responsibilities of the Governing Board*.⁶

What Do We Recommend?

The Board should:

1. Ensure it receives adequate and accurate financial reports including, but not limited to, budget status reports, reports of all money received and disbursed, cash balance reports, bank statements and bank reconciliations to monitor financial operations.
2. Provide adequate oversight by ensuring bank reconciliations are prepared accurately and timely and adequately reviewed.

⁶ Available on our website at www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf.

-
3. Perform a deliberate and thorough audit of all claims and supporting documentation before approving payment.
 4. Properly document the audit and approval of claims by adopting resolutions that contain the total dollar amount and sequential numbers of all claims that have been approved for payment.
 5. Ensure the Supervisor pays only those claims before Board audit and approval that are allowed to be paid in advance and audit such claims at the next regular meeting.
 6. Ensure credit card claims are audited and paid timely to avoid interest charges and fees.
 7. Perform annual audits of the records of all officers who receive or disburse funds.
 8. Improve its understanding of its fiscal oversight role by reviewing the following publications available on our website: *Information for Town Officials* (www.osc.state.ny.us/files/local-government/publications/2020/pdf/information-for-town-officials.pdf), *Improving the Effectiveness of Your Claims Auditing Process* (www.osc.state.ny.us/localgov/pubs/lmgm/claimsauditing.pdf) and *Fiscal Oversight Responsibilities of the Governing Board* (www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf).

The Supervisor should:

9. Ensure all claims are provided to the Board for audit.
10. Pay claims only after the Board has audited and approved them, unless appropriately authorized for prepayment.
11. Ensure bank reconciliations are prepared each month and properly reviewed by an individual independent of recording cash and journal entries. Any unreconciled variances should be investigated and resolved in a timely manner.

Appendix A: Response From Town Officials

Town of Berne

Sean S. Lyons, Supervisor

P.O. Box 57
Berne, NY 12023
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August 23, 2021

Via US and Electronic Mail

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Email Muni-GlensFalls@osc.ny.gov

RE: Town of Berne Board Oversight Draft Report 2021M-77

[REDACTED]
In response to the draft report for the Audit of Town of Berne Board Oversight Report 2021M-77 I offer the following.

I cannot argue the board did not provide adequate oversight of financial operations based on the summary of your audit and the letter of the law, but I would assert that the financial operations of the Town received better than adequate oversight of the claims and financial records during my 3+ yrs. as Supervisor with 7 different Board members for many reasons.

1. As a long-standing town procedure, the claims are available for Board review at anytime the Town Clerk's office was open plus the abstracts are emailed to the board with the Supervisor Reports and were made available at the monthly meeting. At every board meeting the Board is asked if they have reviewed the Budget Transfers, the abstracts for each claim, and the bills to be paid for the month, then the Board is asked if they have any questions, comments, or concerns with the Budget Transfers, the abstracts for each claim, and the bills to be paid for the month. After that, motions are made to Approve the Budget Transfers, Approve the abstracts for each claim, and Approve the bills to be paid for the month.
2. The Towns AUD has been accepted by the state for each year I have been Chief Fiscal Officer.
3. Your audit did not find any inappropriate claims or balances.

It was never the boards intent to exceed its authority by authorizing payment of bills prior to audit, its intent was to not make payments late or miss them all due to unforeseen circumstances. This fault has since been rescinded by the Town Board via motion.

Based on prior administration procedures for supervisor reports following previous audits it was believed the Supervisor was providing the Board with the proper monthly reports with all required information. Since this draft report I have amended my monthly supervisor reports to now include monthly cash reports detailing money received & disbursed, monthly bank reconciliations and cash balances for each account. The Town has hired a second clerk with a focus on providing timely, accurate bank reconciliations for board review each month.

I do not agree the months of Dec 2019, September & December 2020 were chosen using professional judgement but rather insight from the audit requestors as [REDACTED] has repeatedly called these months as deficient reports. I also do not agree they were incomplete, as I have stated to the councilmembers the revenues and expense reports were combined in one .pdf and simply needed to scroll down to past revenue to get to expense. While I do agree I was inconsistent in my report layouts I have always included revenue and expenditures and have since come to a standard format.

See
Note 1
Page 10

Since the audit draft report, the 2020 Judges Annual Audit was complete along with the 2019 and 2020 Audit of the Supervisor and the Town Clerks Annual audit is scheduled for September 2021. Annual

audits of the Supervisor, Town Clerk, Tax collector and CEO will now be implemented in the Towns Annual Organizational meeting.

As we all know, 2020 was marked by the covid pandemic that made the normal operations of the town's business anything but normal that lead to a number of new challenges in completing simple tasks such as Bank Reconciliations in a timely manner, added to the fact that the Account Clerk position charged with these duties has been vacant since July 2018. As of 08/11/2021 the administrative assistant/account clerk position has been filled and immediately assigned the task of bank reconciliations that shall be provided to the board post reconciliation each month. As an example, July Bank Statements were received on 08/13/2021 and are being completed for the next board meeting on 09/08/2021. The Supervisor would like to point out the Senior Account Clerk did have 67% of bank statements complete and that 74% were accurate and prepared properly. Health and trust account, payroll clearing account, general operating account have been updated to reflect the transactions in the accounting system.

Resulting from the audit process the town implemented a Credit Card use policy and amended the processing of the credit card to ensure a timely payment and to avoid the late fee penalty and had the due date changed until after the monthly meeting. Also, the credit card was previously paid with the utilities – It will now be processed as the only voucher in an abstract.

Our Corrective Action Plan is in process to be prepared by its deadline and many actions have been implemented to ensure proper board oversight, bank reconciliations and proper payment of claims such as,

- a) Abstracts are now numbered with their dollar amount and called out in motions for payment.
- b) Each Board member is now required to sign off on reviewing the monthly claims prior to approval and payment.
- c) Supervisor reports have been upgraded to include all money received/disbursed, cash balance and account statements along with bank reconciliations.
- d) The town hired a second clerk to prepare the bank reconciliations each month for timely board review.
- e) Motion rescinded allowing Supervisor to pay claims prior to audit
- f) Inclusion of the amended credit card policies and practices

In conclusion I look forward to implementing our CAP and improving the towns financial oversight that will greatly benefit all residents of Berne as well as those who step up in the future representing the great people Berne. God Bless America

Sincerely,

Sean S. Lyons, Town Supervisor

Cc: via email
[REDACTED]

Appendix B: OSC Comment on the Town's Response

Note 1

As noted in Appendix C, Audit Methodology and Standards, the months were selected to include year-end reports for December 2019 and 2020. We selected September 2020 to capture a month within the fiscal year.

The monthly reports we reviewed were incomplete because the Board was not provided with detailed cash reports of all money received and disbursed, including cash balances for all Town cash accounts or bank reconciliations.

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 the bookkeeper, reviewed Board minutes and monthly Board reports to obtain an understanding of the Board's oversight of financial operations, including the Board's claims audit and approval process and annual audit process over the records of officers and employees who received and disbursed funds.
- We reviewed three months of financial reports provided to the Board and bank reconciliations during our audit period to determine whether the reports were adequate, and the bank reconciliations were accurately prepared and properly reviewed each month. We used our professional judgment to select the months December 2019 and September and December 2020. We prepared bank reconciliations for all 12 bank accounts for our sample months. Our review included bank statements, cancelled checks and general ledger reports. We compared our reconciliations with those provided by the bookkeeper. We used our professional judgment to select the year-end reports for December 2019 and 2020, because it allowed us to capture the beginning and the end of the 2020 fiscal year. We selected September 2020 to capture a month within the fiscal year.
- We used our professional judgment to select a sample of two months (February and August 2020). We reviewed all 170 claims totaling \$166,792 paid during these months. We selected our sample months based on the time of year, one month during the winter and one month during the summer. We reviewed the claim packets, abstracts and Board minutes to determine whether these claims were audited and approved by the Board, adequately supported and for proper purposes.
- We reviewed all 13 credit card statements received or paid during our audit period and related claims with payments for charges totaling \$8,308 to determine whether credit card claims were audited by the Board, charges were for appropriate purposes and paid on time.
- We interviewed Town officials and reviewed Board minutes and annual Board audit documentation to determine whether the Board performed required annual audits for 2019 and 2020 of all officials and employees who received and disbursed funds.

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

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas
www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems
www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management
www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans
www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders
www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller
www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers
www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics
www.osc.state.ny.us/local-government/academy

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