

Town of Machias

Supervisor's Financial Duties

SEPTEMBER 2021



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

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Report Highlights

Town of Machias

Audit Objective

Determine whether the Town of Machias (Town) Town Supervisor (Supervisor) adequately performs his financial duties.

Key Findings

The Supervisor did not adequately perform his financial duties and cannot provide support for almost \$1.6 million in interfund loans.

Although interfund loans must be repaid by the close of each fiscal year, interfund loans have grown from \$246,280 in 2015 to almost \$1.6 million as of December 31, 2019. The Supervisor also did not:

- Provide adequate oversight of the bookkeeper.
- Provide detailed monthly financial reports to the Board.
- Review monthly bank reconciliations.
- Prepare and file the annual financial reports for 2019 and 2020 with the Office of the State Comptroller (OSC) in a timely manner.

Key Recommendations

The Supervisor should:

- Periodically review the work of the bookkeeper to ensure the records and reports are adequately maintained.
- Provide monthly financial reports to the Board, which include a detail of money received and disbursed.
- Ensure appropriate bank reconciliations are completed in a timely manner and review the reconciliations.
- Prepare and file the annual financial report with OSC as required.

Town officials generally agreed with our recommendations and indicated they are taking corrective action. Appendix B includes our comments in response to issues raised in the Town's response.

Background

The Town, located in Cattaraugus County (County), is governed by an elected Town Board (Board) composed of five members, including the Supervisor. The Board is responsible for the general oversight and management of the Town's operations and finances.

The Supervisor is the chief financial officer and is responsible for the day-to-day financial operations including maintaining accounting records and providing monthly financial reports to the Board. The Board appointed a certified public accountant (CPA) as the bookkeeper to assist the Supervisor in performing his financial duties.

The Town maintains eight funds: the general, highway, library, street lighting, sewer, water, capital projects and trust and agency funds to account for financial activity.

Quick Facts

2021 Total Appropriations	\$2.3 million
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Population	2,375
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Interfund Loan Balance

As of 12/31/15	\$246,280
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As of 12/31/19	\$1,600,000
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Audit Period

January 1, 2020 – May 27, 2021

We extended our review back to January 1, 2015 for certain records related to interfund activity and bank reconciliations.

Supervisor's Financial Duties

What Are a Supervisor's Financial Responsibilities?

As the chief financial officer, a supervisor's responsibilities include collecting money due to a town, paying board-approved claims, maintaining complete and accurate accounting records, providing detailed monthly financial reports to the board and filing an annual financial report with OSC. A supervisor must file this report within 60 days of the end of a town's fiscal year or request an extension which, if granted, would extend the deadline an additional 60 days. This report provides the board, OSC, town residents and other interested parties with a tool to monitor and evaluate financial operations.

If a bookkeeper is appointed to assist a supervisor in fulfilling his or her financial duties, the supervisor remains responsible for these functions and should provide sufficient oversight to ensure the bookkeeper maintains adequate records, documents financial activity accurately, provides useful reports to the board and prepares and files financial reports as required. As part of this oversight, a supervisor should periodically review the accounting records to ensure they are accurate, complete and up to date. In addition, a supervisor should ensure monthly bank reconciliations are performed and review all reconciliations prepared by the bookkeeper. Monthly bank reconciliations provide a way to identify, correct and document differences between a town's records and bank transactions and for detecting and addressing any unauthorized activity.

The Supervisor Did Not Provide Adequate Oversight and Accounting Reports Were Not Completed in a Timely Manner

The bookkeeper performed most of the Supervisor's day-to-day duties without adequate oversight. The bookkeeper maintained the Supervisor's accounting records, prepared bank reconciliations and was responsible for financial reporting. The Supervisor made the bank deposits and recorded the revenue on a spreadsheet, which he provided to the bookkeeper monthly. The bookkeeper used information from the spreadsheet and the bank's website to record the revenues in the general ledger, which she maintained using accounting software. In addition, the Supervisor prepared disbursements each month based on the Board-approved abstract of audited claims. He used the accounting software to print checks that he then physically signed. The bookkeeper uploaded a backup of the disbursement information monthly into the accounting software on the computer maintained at her office to update the general ledger.

Monthly and Annual Reports – Although we were told the bookkeeper prepares monthly reports for the Supervisor, neither the Supervisor nor the bookkeeper consistently retained the monthly reports, provided them to the Board or filed them with the Town Clerk. Therefore, it was unclear which reports were actually prepared and provided to the Supervisor.

The bookkeeper performed most of the Supervisor's day-to-day duties without adequate oversight.

During our fieldwork, we also found that the 2019 and 2020 annual financial reports had not been prepared and filed. The Supervisor and bookkeeper both told us they were unaware that these reports had not been completed but that the report was typically prepared by the bookkeeper, as such she should have been aware the annual reports had not been filed. In addition, OSC sent the Supervisor a delinquent letter on June 15, 2020 for the 2019 annual financial report and on May 20, 2021 for the 2020 annual financial report. Prior to the end of our fieldwork, the bookkeeper filed the 2019 report and provided us a copy that was certified on May 17, 2021. However, as of May 27, 2021, the 2020 annual financial report had not been filed and was 26 days late (the Town filed an extension). The bookkeeper told us she was unable to work on 2020 and the current year (2021) at the same time because the accounting system limits how many years of financial activity can be accessed at a time. Since the 2019 records remained open this prevented her from working on the subsequent years.

Bank Reconciliations – The Supervisor did not review the bank reconciliations and they were not dated, so it was unclear if they were prepared in a timely manner. We reviewed the monthly bank reconciliations prepared for 2020. We requested the bank reconciliations in January 2021; however, the December 2020 bank reconciliation was not provided to us until March 2021. In addition, during our review of the December 2020 bank reconciliation, we found 21 outstanding checks totaling \$4,733 that were outstanding since the December 2018 reconciliation, and six outstanding checks totaling \$1,086 that were outstanding since the December 2019 reconciliation. Outstanding checks, which cannot be cashed after 180 days, should be addressed by the Town, and should not be carried over on the bank reconciliation indefinitely. The Supervisor was not aware these checks were outstanding because he did not review the bank reconciliations. The Supervisor told us that he would review the bank statements for anything that appeared out of place, but ultimately, he relied on the bookkeeper to perform this duty and thought she would have let him know if there had been an issue with old outstanding checks. He did not know that, although he delegated some of his financial duties to the bookkeeper, he was responsible for reviewing her work, including the bank reconciliations.

Interfund Activity – New York State General Municipal Law (GML) Section 9-a requires that interfund borrowings are repaid as soon as funds are available, but no later than the close of the fiscal year in which the advance was made. When reviewing the accounting records, we noticed significant outstanding interfund loan balances, for which Town officials were unable to provide support for. If the records accurately reflect interfund activity, the Town did not repay interfund loans in a timely manner. The Town's eight funds' total outstanding interfund loan balances increased from \$246,280 in 2015 to almost \$1.6 million as of December 31, 2019. Balances as of December 31, 2019 are included in Figure 1.

The Town's [interfund loans] had a total outstanding balance... of \$1.6 million as of December 31, 2019.

Figure 1: Interfund Activity as of December 31, 2019

Fund ^a	Due From Other Funds	Due To Other Funds	Cash Balance Per Accounting Records
General	\$728,184	\$640,424	\$1,043,089
Highway	321,683	146,396	158,469
Capital Projects	92,604	599,446	(67,976)
Sewer	348,832	96,407	29,888
Water	75,267	77,454	35,509
Library	0	9,315	13,647
Trust and Agency	10,173	7,301	24,930
Totals	\$1,576,743	\$1,576,743	\$1,237,556

a) The street lighting fund had no interfund activity according to the accounting records.

The bookkeeper and Supervisor were unable to provide us with a schedule or other support detailing when interfund loans were made, the purpose of the loans, the amount and the funds involved in each loan.

The largest liability for money owed to other funds is in the capital projects fund. It is a routine practice for operating funds to loan money to the capital projects fund to finance early-stage capital project costs with the understanding that when short- and long-term financing is obtained from third parties, the capital projects fund will repay the operating funds. However, there are occasions when financing from third parties is not obtained or the third-party financing is not adequate to allow the interfund loans to be repaid by the capital projects fund. In such cases, the loans are usually reclassified as interfund transfers.¹ Town officials should review the financing plans for their capital projects and determine whether the capital projects fund will be obtaining third-party financing to enable the interfund loans to be repaid or if the loans can and should be reclassified as transfers.

We also found that non-general fund money deposited into the general fund bank account was not being remitted to the appropriate fund in a timely manner. For example, in 2020, the Town received \$154,582 from New York State for the Consolidated Local Street and Highway Improvement Program and PaveNY that was for the highway fund, but the Supervisor deposited the check into the general fund's bank account. When this money was deposited in July 2020, the bookkeeper correctly increased the general fund's cash account balance and recorded an interfund loan due to the highway fund. However, the money was not then remitted to the highway fund to finance highway fund operations in a timely manner. In August 2020, \$85,000 of this money was remitted to the highway fund.

¹ Interfund transfers differ from interfund loans in that transfers are a permanent allocation of money from one fund to another, with no resulting obligation to pay the money back.

However, at year-end 2020, the remaining \$69,582 had still not been remitted to the highway fund. The Supervisor told us that he deposits all money received into the general fund and relies on the bookkeeper to remit non-general fund money to the other funds. However, the bookkeeper told us she does not remit money owed to other funds unless she is instructed to by the Supervisor who, as the chief financial officer of the Town, should authorize and direct such remittances to be made.

The bookkeeper also told us she was planning to reconcile and repay the outstanding interfund loans before filing the 2020 annual financial report. At the end of fieldwork, she told us she was struggling to reconcile the interfund activity because she was unable to trace where each interfund loan was initiated and was unsure if she could cancel out interfund activity balances. If the December 31, 2019 balances reflect accurate interfund activity, the capital projects, sewer and water funds may have insufficient cash to repay the amounts due to other funds.

Because the Supervisor relied on the bookkeeper to handle the day-to-day accounting activities and provided minimal oversight, the Supervisor was unaware of the identified issues in this report. However, the Supervisor is the chief financial officer and is responsible for ensuring the bookkeeper maintains accurate accounting records and performs all job duties in a timely manner. The lack of timely and accurate financial reports provided to the Board diminishes its ability to effectively monitor Town financial operations.

What Do We Recommend?

The Supervisor should:

1. Periodically review the work of the bookkeeper to ensure the records and reports are adequately maintained.
2. Provide monthly financial reports to the Board, which include a detail of money received and disbursed.
3. Prepare and file the annual financial report with OSC as required.
4. Ensure appropriate bank reconciliations are properly completed in a timely manner and review the reconciliations.
5. Address checks that have been outstanding more than 180 days.
6. Review the status of the capital projects and determine the ability of the capital projects fund to redeem its interfund obligations to other funds. If the capital projects fund is unable to redeem its obligations, consult with the Board and Town Attorney to determine if the loans can and should be reclassified as interfund transfers.

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7. Review the other (non-capital projects fund) interfund loan balances to determine whether they are correct and repay outstanding interfund obligations. If outstanding balances cannot be resolved, discuss with the Board and Town Attorney on how to proceed, including whether outstanding balances should be written-off and if they have to legal authority to do so.
 8. Attend applicable and beneficial accounting training sessions to better understand and perform his duty of overseeing the work performed by the bookkeeper. Training provided by OSC can be found at www.osc.state.ny.us/localgov/academy/index.htm.

Appendix A: Response From Town Officials



TOWN OF MACHIAS

August 30, 2021

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New York State Comptroller
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Attn: Jeffrey Mazula Chief Examiner

Dear Sirs:

AUDIT FINDINGS RESPONSE

Machias is a small rural town with Town Board, Town Clerk, and Town Supervisor all elected to part time positions. Duties of these positions are generally passed down to the current office holders by informal meeting(s) with the prior office holder. It would be a much better practice to have the duties of each position in town government enumerated and presented to each incoming office holder, along with specific publications and training courses to teach the responsibilities. The current supervisor was unaware of financial duties other than accepting town funds for timely deposit into town bank accounts and preparing checks for payment of vendor accounts after audit and approval by the Town Board. No findings of violations of these duties was found and reported. In fact the town appears to be in a very sound financial condition.

The town accountant/bookkeeper, a certified public accountant, was charged with maintaining the computerized accounting records and production of the annual financial report. The 2020 calendar year was an extraordinary year due to COVID pandemic and personal back injury to our CPA. It appears that the 2019 AUD, due in 2020, was incorrectly marked as completed in the accountant's work flow documentation. After discovery of the non filed report, the AUD was in fact filed but not approved and returned in a timely manner. This was likely due to New York State Comptroller

See
Note 1
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See
Note 2
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employees either not working or working from home due to the COVID pandemic. Our computer software only allows for two financial periods to be active at any time. Since the 2019 period needs to be open to respond to the Comptroller questions and report modifications and 2021 period needs to be open to record current financial transactions, work on the 2020 AUD was delayed until the 2019 AUD was approved.

The Supervisor was not aware of the need to provided monthly financial reports to Board Members and neither of the Board Members with many years of service questioned non receipt of such reports. Although monthly financial reports were not, always filed , Supervisor reviewed the financial reports and talked to CPA about concerns or posting errors noted. During 2020, many Board meetings were not held due to COVID shut down directives from higher governmental agencies.

Monthly bank reconciliations are done each month prior to production of the monthly financial report. All bank reconciliations will be printed and placed in the yearly three ring binder of bank statements. An additional copy is now attached to the al monthly finance report provided to each Board Member. This report also shows the incoming and outgoing transactions for each fund. See the condensed report sample attached as exhibit 1.

See Note 3 Page 11

Supervisor reviews monthly financial reports and bank reconciliations each month. Supervisor and CPA will schedule joint meetings on a quarterly basis to review manual adjustments to the financial records. Although all incoming monies are deposited to the general fund, timely transfers from general to appropriate funds will be completed and verified at the quarterly meetings. All outstanding checks more than ninety days old have been cleared and will be part of the quarterly review process with Supervisor and

CPA.

The interfund activity has been addressed with the exception of the sewer fund. We have an ongoing capital project for construction of a twelve million dollar sanitary sewer project with financial oversight through EFC. We anticipate the permanent financing to close on or about September 16, 2021. After closing this loan, the sewer fund will resolve any outstanding interfund transactions. Since future loan payments will be due to EFC by December 31 each year starting in 2021, interfund loan activity will be a recurring issue as the annual sewer rents are included on the Town and County property tax bills not due until January 31 without penalty and March 31 with penalty. With the concurrence of the Town Board, Supervisor will recommend transfer of \$219,504.22 from the general fund to the highway fund. This amount was incurred for acquisition of our last snow plow truck. That transaction was booked as a due to/from rather than bonding the acquisition cost, thereby saving the town financing costs.

Should you have any questions or need additional information, please contact me.

Sincerely,

Stephen J. Cornwall
Town of Machias Supervisor
716-353-8207 or 716-560-9178(cell)

Appendix B: OSC Comments on the Town's Response

Note 1

OSC's website offers many applicable and beneficial training opportunities and publications pertaining to local officials' responsibilities.

Note 2

Contrary to the official's statement, OSC processed the Town's annual financial report timely. Although the Town was notified on June 15, 2020 that the 2019 annual financial report had not been filed, officials did not file the 2019 report until May 17, 2021. On June 7, 2021, OSC sent Town officials questions regarding the filed report, however officials did not respond to our questions until July 12, 2021. The Town's 2019 filing was approved on July 28, 2021.

Note 3

Due to the size of exhibit 1 and its inclusion of detailed financial transactions, the exhibit was not included in the final report.

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 the Supervisor and bookkeeper, and reviewed the Board minutes to obtain an understanding of the Town's accounting practices including year-end reporting.
- We obtained a list of payments made to the Supervisor from the State, County, Town Justices and Town Clerk. We traced the payments to the accounting records including general ledgers and budget-to-actual reports and bank statements to determine whether revenues were accurately recorded in a timely manner, and deposited intact.
- We reviewed bank statements and bank reconciliations from January 2020 through December 2020 to determine whether bank reconciliations were properly performed. We also reviewed bank statements to identify interfund transfer activity.
- We reviewed the annual financial reports from 2015 through 2018 and general ledger reports for 2019 and through November 2020 to review the change in interfund activity.

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

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

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

<https://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

<https://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

<https://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

<https://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

Contact

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Division of Local Government and School Accountability
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www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

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