

Town of Shelby

Supervisor's Financial Responsibilities

DECEMBER 2021



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

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Report Highlights

Town of Shelby

Audit Objective

Determine whether the Town of Shelby (Town) Supervisor (Supervisor) adequately performed his financial duties.

Key Findings

The Supervisor did not adequately perform his financial duties. The Supervisor did not:

- Maintain accurate accounting records. As a result, the accounting records contain significant variances between the bank balance and the recorded cash balance. The variances ranged from more than \$1 million as of January 1, 2017 to \$153,000 as of December 31, 2020.
- Provide the Board with adequate monthly reports that included cash balances and the detail of revenues received.
- Ensure annual financial reports were filed on time. The 2017, 2018 and 2019 annual financial reports were filed from 106 to 194 days late.

In addition, each year the CPA firm hired to conduct the Town's annual audit reported financial reporting control deficiencies. However, the Board has not addressed the deficiencies.

Key Recommendations

- Resolve discrepancies in the accounting records.
- The Supervisor should attend and require the bookkeeper to attend training to better understand and perform their job duties.

Town officials agreed with our recommendations and indicated they have initiated or planned to initiate corrective action.

Background

The Town, located in Orleans County (County), is governed by an elected five-member Town Board (Board) composed of four Board members and the Supervisor. The Board is responsible for the general oversight of operations and finances.

The Supervisor is the chief financial officer responsible for maintaining accounting records and financial reporting. A bookkeeper was appointed to assist the Supervisor in performing his financial duties.

During our previous audit of the Town, we identified significant differences between the adjusted bank balances and the cash balances in the accounting records. Refer to Town of Shelby – Financial Management (2012M-206), issued in January 2013. Town officials did not implement our recommendation to resolve discrepancies in the accounting records.

Quick Facts

December 31, 2020 Bank Balance	\$2.9 million
2021 Appropriations	\$3.3 million

Audit Period

January 1, 2017 – May 31, 2021

Supervisor's Financial Responsibilities

Three individuals served as Supervisor during our audit period. The first served from before our audit period until December 31, 2017. A newly elected Supervisor took office in January 2018 until he resigned effective May 31, 2020. The Board appointed the current Supervisor in June 2020. In addition, the Town had three bookkeepers during our audit period. The first bookkeeper served from before our audit period until September 2017. A second bookkeeper was appointed in September 2017. The current bookkeeper was appointed in February 2018.

What Are the Supervisor's Fiscal Responsibilities?

As chief financial officer, a supervisor is responsible for collecting money belonging to or due to the town, paying board approved claims, maintaining complete and accurate accounting records and providing detailed monthly financial reports to the board. In addition, the supervisor is required to file an annual financial report with the New York State Comptroller's Office (OSC) within 90 days of the end of the fiscal year or request an extension which extends the filing deadline an additional 30 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 the 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, the supervisor should periodically review the accounting records to ensure they are accurate, complete and up to date.

In addition, the 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 the town's records and bank transactions and for detecting and addressing any unauthorized activity.

The Supervisor Did Not Maintain Accurate Accounting Records

We compared the year-end cash balances recorded in the accounting records to the bank balances from January 1, 2017 through December 31, 2020.

Our comparison disclosed that the total cash in the bank balance was significantly less than the total recorded cash balance in the accounting records ranging from more than \$1 million less in the bank as of January 1, 2017 to \$153,000 less in the bank as of December 31, 2020 (Figure 1).

... [T]he total cash in the bank balance was significantly less than the total recorded cash balance in the accounting records ...

Figure 1: Total Cash in Bank vs. Total Recorded Cash in Accounting Records

	1/1/2017	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Cash in Bank	\$3,425,000	\$2,492,000	\$2,605,000	\$2,702,000	\$2,908,000
Recorded Cash	4,536,000	2,676,000	3,007,000	3,195,000	3,061,000
Variance	(\$1,111,000)	(\$184,000)	(\$402,000)	(\$493,000)	(\$153,000)

The bookkeeper was responsible for performing many of the respective Supervisor’s financial duties. None of the bookkeepers prepared any bank reconciliations or maintained a list of outstanding checks since before the start of the audit period. During our previous audit of the Town, we identified significant differences between the adjusted bank balances and the cash balances in the accounting records going back to at least 2010.¹

At that time, we advised the Supervisor to request that the CPA provide appropriate adjusting journal entries to resolve the discrepancies in the accounting records. However, Town officials did not resolve these discrepancies and we were unable to reconcile the differences. As of the end of our fieldwork, in May 2021, total cash in the bank was \$429,000 less than the recorded cash balance.

The Board engaged a CPA to perform the Town’s annual audit, prepare financial statements and file the annual financial report with OSC. Each year during our audit period, the CPA’s management letter to the Board reported a significant deficiency in internal control because the bank accounts were not reconciled to the accounting records each month or at year end. Town officials did not address this deficiency. Board members told us they did not recall discussing any issues concerning the CPA’s annual audit. In addition, we did not find evidence of such discussion in the Board minutes.

As of the end of our fieldwork, the last available annual audit performed was for 2019 and the management letter was dated August 2020. The Supervisor told us the Board did not discuss issues resulting from this annual audit until six months later, during its March 2021 meeting, after we began our audit fieldwork. However, we did not find evidence of such discussion in the Board minutes.

Due to these discrepancies, we reviewed 314 cash receipts totaling \$7.5 million and 396 cash disbursements totaling \$479,753 to determine whether these transactions were accurately recorded.²

We traced the 314 cash receipts to the accounting records and bank statements to determine whether they were accurately recorded and deposited intact in the same form as received (i.e., cash or check). Almost \$5.4 million of the receipts

... [I]n May 2021, total cash in the bank was \$429,000 less than the recorded cash balance.

1 Refer to *Town of Shelby – Financial Management (2012M-206)*, issued in January 2013.

2 Refer to Appendix B for information on our sampling methodology.

tested were four payments the Town Clerk/Tax Collector paid the Supervisor for real property taxes and water assessments for which we found no discrepancies. However, we found various discrepancies which affected the cash balance, in 13 receipts totaling \$118,893, including the following:

- One cash receipt of \$45,007 received from the State in December 2019 was recorded twice. When reviewing the accounting records, we found that numerous journal entries were made both re-entering this transaction and reversing it, with a result of it being recorded twice.
- Five cash receipts, totaling \$63,449 were not recorded in the accounting records. For example, in June 2020 the Town's water clerk reported that \$9,667 in water rents was collected in May 2020. Although all these funds were deposited in the Town's bank account, the bookkeeper did not record them.
- Two cash receipts totaling \$1,583 (\$459 in January 2018 and \$1,124 in December 2019) received from the Town Clerk were recorded correctly in the accounting records as general town-wide fund cash of \$1,336 and general town-outside-village fund cash of \$247. However, \$619 was deposited in the general town-wide bank account and \$964 was deposited in the general town-outside-village bank account.
- Five cash receipts were recorded as a decrease to the cash account, instead of an increase, resulting in \$8,854 less cash recorded.

In addition, we found 19 cash receipts totaling \$269,168 that, although they had no effect on the cash balance, were inconsistently recorded in the accounting records from year to year. Five cash receipts received from the State for snow and ice removal, totaling \$195,524, were inconsistently recorded. Two such receipts were recorded as other State aid and in other instances was recorded as transportation services revenue. Also, 14 receipts from the Town Justice totaling \$73,644 were inconsistently recorded. Before 2018 they were correctly recorded as fines and forfeited bail and after 2018 were recorded as overpayments.

Our review of the 396 cash disbursements revealed some internal control deficiencies and minor discrepancies that affected the cash balance. We discussed the details of these deficiencies with Town officials.

The Supervisor Did Not Prepare Adequate Monthly Reports or File Timely Annual Reports

We interviewed Board members and reviewed Board meeting minutes to determine which reports were received by the Board. The Board received a monthly report from the Supervisor that compared the budget to actual revenues and expenditures. However, these reports did not include any information on cash balances in bank accounts or the accounting records. In addition, the

reports contained no information on amounts received and disbursed during the month. Even if this report was prepared, it would most likely be inaccurate due to previously discussed discrepancies in the bank balances and because bank reconciliations were not prepared.

In addition, the Supervisor relied on the CPA to file the annual financial report. Our review revealed that annual financial reports were not filed timely in recent years. For 2017, 2018 and 2019 the reports were filed late (Figure 2).

To file the annual financial report with OSC, a bank reconciliation needs to be properly completed. We reviewed the bank reconciliation included in the 2019 annual financial report and found the adjusted bank balance matched the accounting records. However, we were unable to find supporting documentation for the amounts used to adjust the bank balance to the accounting records.

Figure 2: Annual Financial Reports Filed Late

Year	Days Late
2017	177
2018	106
2019	194

We contacted the CPA who said that they estimated these amounts for the bank reconciliation to balance. Estimating an unsupported amount is an inappropriate way to reconcile a bank account.

Because of significant turnover in the Supervisor and bookkeeper positions, neither the Supervisors nor the bookkeepers received adequate training on how to perform their duties including maintaining the accounting records and the types of reports that should be prepared each month and annually. Consequently, the Board, Town residents and other interested parties have inadequate and inaccurate information on the Town's financial operations.

Estimating an unsupported amount is an inappropriate way to reconcile a bank account.

What Do We Recommend?

The Supervisor should:

1. Resolve discrepancies in the Town's accounting records.
2. Complete bank reconciliations in a timely manner.
3. Periodically review records and reports, and monthly bank reconciliations.
4. Provide monthly financial reports to the Board, which include a detail of all money received and disbursed.
5. Properly file the annual financial report with OSC as required.

-
6. Attend, and require the bookkeeper to attend, applicable and beneficial training sessions to enable both to better understand and perform their duties. Training provided by OSC can be found at www.osc.state.ny.us/localgov/academy/index.htm.

The Board should:

7. Ensure that recommendations and other opportunities for improvement made by the CPA are implemented by Town officials.

Appendix A: Response From Town Officials

Office of the State Comptroller
295 Main Street, Room 1032
Buffalo, NY 14203-2510

Re: Town of Shelby
Supervisor's Financial Responsibilities
Report of Examination
2021M-121

Attached you will find the Town of Shelby's audit response and will also serve as the Town's corrective plan.

Audit Recommendation:

Supervisor:

1. Resolve Discrepancies in the Town's accounting records.
2. Complete bank reconciliations in a timely manner.
3. Periodically review records and reports, and monthly bank reconciliations
4. Provide monthly financial reports to the Board, which include a detail of all money received and disbursed.
5. Properly file the annual financial report with OSC as required.
6. Attend, and require the bookkeeper to attend, applicable and beneficial training sessions to enable both to better understand and perform their duties.

Board:

7. Ensure that recommendations and other opportunities for improvement made by the CPA are implemented by Town officials.

Audit Response:

Supervisor:

As stated in the audit we had three Supervisors for the time line of the audit that was performed. Moving forward recommendation 1-3 have already been implemented for the past year. The accounting records are being reviewed and

the accounts will be corrected and balanced out by the year end. The bank accounts are monitored and reconciled on a monthly basis. Which will again ensure that they are balanced and matching the accounting program.

In regards to number 4, the monthly statements to the board, they are given an Expense/Revenue report. We have now implemented a General Ledger Report to be included to show cash input and output. This will allow the Board to see what revenue and expenses the Town has in a timely manner.

As for number 5, due to the fact that we had four bookkeepers during the audit review and at one-point Covid complications our annual financial audits were not filed in a timely manner. In speaking with our auditing firm and some procedure changes, we have filed on time this year and will continue to file in a timely manner.

Number 6 in the audit review I would like to state that our bookkeeper has attended every financial class she was able to. As well as received awards for her continued education. She will also continue her education in the years to come. As the Supervisor I am looking into the education classes offered on the New York State website and plan to attend them in the near future as well as the webinars that are offered.

Board:

The Board will ensure that number 7 in the recommendations will be followed and implemented.

Implementation Plan of Actions:

As stated above the Supervisor has made necessary changes and has already started to do the recommendations. Bank accounts are being reconciled monthly, as well as the accounts being balanced and by years end will be matching the accounting program used by the Town. The number of accounts has been decreased from 23 to 14 and by the end of the year to 7. This will help in the reconciliation process as well. Accounts are monitored by the Supervisor on a continuous basis.

Appendix B: 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, we performed the following audit procedures:

- We interviewed Board members, the Supervisor and bookkeeper and reviewed the Board minutes to obtain an understanding of the accounting and reporting practices.
- We compared the cash balances in the bank to the cash balances recorded in the accounting records at the beginning of 2016, for 2017, 2018, 2019, and 2020 and at the end of our fieldwork to determine whether variances existed and whether the bookkeeper reconciled bank statements.
- We used our professional judgment to select a sample of 314 cash receipts. We included in our sample all amounts received by the Supervisor from the State, County, Town Justice, Town Clerk/Tax Collector and water clerk in January, June, and December 2017 through 2020 and from the Town Clerk/Tax Collector from 2017 through 2020 and records of receipts for water connections and scrap sales. We traced all receipts to the accounting records and bank statements to determine whether receipts were recorded accurately and deposited timely and intact.
- We compared all checks issued (except for payroll) in 2019 and 2020 to checks that cleared the bank accounts to identify any discrepancies. Using our professional judgment, we selected a sample of payments which included all payments made to three utility vendors in 2019 and 2020, all payments made in December 2017, January 2018, December 2019, and June 2020 to determine whether they were appropriate and recorded accurately.
- We assessed whether annual financial reports were submitted to OSC timely for 2017, 2018, 2019 and 2020.

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 C: 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

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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

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

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