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January 2023

Dennis Palow, Supervisor
Members of the Town Board
Town of Berne
1656 Helderberg Trail
Berne, NY 12023

Report Number: 2021M-77-F

Dear Supervisor Palow and Members of the Town Board:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. The Office also works to develop and promote short-term and long-term strategies to enable and encourage town officials to reduce costs, improve service delivery and to account for and protect their town's assets. In accordance with these objectives, we conducted an audit of the Town of Berne (Town) to assess the Town Board's (Board) oversight. As a result of our audit, we issued a report, dated September 2021, identifying certain conditions and opportunities for Town management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the Town in October 2022 to review progress in implementing our recommendations. Our follow-up review was limited to interviews with Town personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, it appears that the Town has made modest progress implementing corrective action. Of the 11 audit recommendations, one recommendation was implemented, two recommendations were not fully implemented, and eight recommendations were not implemented.

Recommendation 1 – Financial Reporting to the Board

The Board should 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.

Status of Corrective Action: Not Implemented

Observations/Findings: We interviewed all Board members, and they told us that the Board was provided with abstracts, budget-to-actual reports, bank reconciliations (including bank statements, balance sheets and outstanding check reports) and a report of budget transfers (if applicable) at the

monthly Board meetings. However, the Board members did not request or receive cash balance reports or reports of all money received and disbursed. The Board was unaware these reports should be provided and reviewed because they did not read the audit report or recommendations. As a result, the Board did not take any action in relation to this recommendation. The Supervisor told us that the current Board should not be responsible for the actions of the prior administration. However, the Supervisor was the Deputy Supervisor at the time of our audit and should have been aware of our audit findings and taken actions to implement corrective steps regardless of whether it was with the prior or current Board.

We reviewed the Board packets for the months of June, July and August 2022 and found them to be incomplete. The Board received abstracts, budget transfer reports and budget-to-actual reports for each month. We found eight of 10 bank reconciliations for June and July 2022 were provided to the Board on August 17, 2022 as part of the July 2022 Board packets. The missing two bank reconciliations were for the health insurance trust bank account and the trust and agency bank account. The Supervisor provided the Board with bank reconciliations for all 10 bank accounts at the August 2022 Board meeting on September 28, 2022. The provided bank reconciliations included bank statements, balance sheets and outstanding check reports from the accounting system.

Recommendation 2 – Board Oversight of Bank Reconciliations

The Board should provide adequate oversight by ensuring bank reconciliations are prepared accurately and timely and adequately reviewed.

Status of Corrective Action: Not Implemented

Observations/Findings: When we asked, the Board members could not provide us with a reasonable explanation why this recommendation was not implemented. Although the Supervisor provided the Board with bank reconciliations, not all bank reconciliations were prepared and provided timely, as noted above in recommendation #1. The Board did not take any action to ensure the bank reconciliations were prepared accurately and timely. Although, the Supervisor told us that he reviews the bank reconciliations, we found no evidence of his review. Additionally, during our review, we found errors on the bank reconciliations as noted in recommendation #11 below.

Recommendation 3 – Board Audit of Claims

The Board should perform a deliberate and thorough audit of all claims and supporting documentation before approving payment.

Status of Corrective Action: Implemented

Observations/Findings: We interviewed all Board members who said they review and audit each claim and the attached supporting documentation. The Board members and the bookkeeper stated abstracts and claims packets were available for review approximately two weeks before the monthly meetings. The Board members audited the claims and signed and dated the abstracts prior

to the meetings. During the meetings, the Board passed a motion to approve all claims for payment. We reviewed abstracts and claim packets provided to the Board at the August 2022 meeting and observed Board members signatures and dates on the abstracts.

Recommendation 4 – Board’s Documentation of Approving Claims

The Board should 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.

Status of Corrective Action: Not Implemented

Observations/Findings: None of the Board members could provide us with a reasonable explanation why the Board did not take any action in relation to this recommendation. We reviewed the Board meeting minutes for July, August and September 2022 and found that the Board passed a motion to authorize payment of bills each month. The motion listed the abstract numbers and dollar amounts without identifying the claim numbers contained in the abstracts. Furthermore, claims paid prior to audit were not identified and there were clerical errors on the abstract numbers and dollar amounts.

Recommendation 5 – Payment of Claims Prior to Audit

The Board should 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.

Status of Corrective Action: Not Implemented

Observations/Findings: At the organizational meeting in January 2022, the Board passed a motion authorizing the Supervisor to pay all utility bills and postage prior to audit. However, the Supervisor and Deputy Supervisor paid four claims totaling \$406,557 before Board audit and approval. These claims were for highway materials (e.g., pavement) which were not exempt from the requirement of a Board audit prior to payment. The Supervisor and his Deputy paid these claims to submit the required documentation for the CHIPS¹ reimbursement funding program before the due date in September 2022.

In addition (as noted in Recommendation #6), debit card purchases circumvented the claims auditing process and allowed payments for goods to be made prior to Board audit.

¹ Consolidated Local Street and Highway Improvement Program

Recommendation 6 – Credit Cards Interest Charges and Fees

The Board should ensure credit card claims are audited and paid timely to avoid interest charges and fees.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board did not take any action in relation to this recommendation. The Supervisor cancelled the Town's credit cards and opened two debit cards (one for himself and the other one for the Deputy Supervisor), in January 2022, to avoid paying interest charges and late fees. The last credit card statement (March 2022) did not include current purchases and reflected a payment for prior charges. We reviewed the February 2022 statement and found that there were \$30 in late fees and \$2 in interest charges.

Unlike using a credit card, where a statement is received and the purchase can be audited and approved before payment, purchases made with a debit card allow funds to be directly withdrawn from a town's bank account, at the time of purchase, providing no opportunity for the board to audit the purchase before it is paid. As such, a town should not use a debit card, because the transactions are direct charges to the bank account and circumvent the claims audit process.

The Supervisor told us he will cancel the debit cards immediately and will request a credit card with extended billing cycle or adjust the billing cycle to the schedule of the Board meetings to allow for timely audit, approval and payment before the due date.

Recommendation 7 – Annual Board Audits

The Board should perform annual audits of the records of all officers who receive or disburse funds.

Status of Corrective Action: Not Fully Implemented

Observations/Findings: We reviewed the audit documentation for all Board audits for 2021 fiscal year. The Board audited the records of both justices and the Clerk. However, the Board did not audit the records of the bookkeeper or the Building and Zoning Department. In addition, the audit documentation for the Clerk's audit was not fully completed because the audit checklist did not indicate what bank accounts were reviewed and when the last bank reconciliation was completed.

Recommendation 8 – Board Members Fiscal Oversight Role

The Board should 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).

Status of Corrective Action: Not Implemented

Observations/Findings: Effective January 2022, the Board had four newly elected members. Although the Supervisor and all Board members attended a training for newly elected Board members in January 2022, none of the Board members have read or reviewed any publications from our recommendation. We had discussions with all Board members and reiterated the importance of knowing their fiscal oversight role. As a result, all Board members told us they will review the publications soon.

Recommendation 9 – Providing Claims for Audit

The Supervisor should ensure all claims are provided to the Board for audit.

Status of Corrective Action: Not Fully Implemented

Observations/Findings: The Supervisor ensured all claims were provided to the Board for audit. However, he was not aware that debit card purchases (as noted in Recommendation #6) circumvented the claims auditing process.

Recommendation 10 – Payment of Claims

The Supervisor should pay claims only after the Board has audited and approved them, unless appropriately authorized for prepayment.

Status of Corrective Action: Not Implemented

Observations/Findings: The Supervisor did not ensure all claims were paid after Board audit and approval, unless appropriately authorized for prepayment. We found four claims were paid prior to audit (as noted in Recommendation #5). These claims were for road materials that were eligible for CHIPS² reimbursement. Officials wanted to submit the required documentation for the funding program before the due date in September 2022. In addition, the debit card purchases (as noted above in Recommendation #6) circumvented the claims auditing process.

Recommendation 11 – Supervisor’s Oversight of Bank Reconciliations

The Supervisor should 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.

Status of Corrective Action: Not Implemented

Observations/Findings: The Supervisor did not take corrective action because he said he had not read the audit report and therefore was not aware of the recommendation. However, he told us that the bookkeeper prepares the monthly bank reconciliations and that he reviews them each month. We found no evidence of the Supervisor’s review on any of the bank reconciliations for June, July

2 *ibid*, p.3

and August 2022. We reviewed all August 2022 bank reconciliations and found the following errors which were not identified by the Supervisor.

- Debit cards purchases totaling \$2,771 were not recorded in the accounting system, including a debit card refund of \$452.
- The highway reserve bank account balance exceeded the book balance by \$255,151. In January 2022, the Board passed a motion for the purchase of a highway truck which is expected to be delivered in 2023. However, the bookkeeper recorded an expenditure and reduced the cash balance in the accounting system even though cash was not spent. The bookkeeper wanted to make sure that the funds would be in the bank account when it was time to make the payment. She also did not want Board members to assume that all funds on the books were available. We advised the bookkeeper to record expenditures as they occur, and she told us that she will reverse the journal entry.
- The bookkeeper reconciled the health insurance trust bank account balance. However, we found \$1,292 in the accounting records which was not included in the reconciliation. The bookkeeper told us that the \$1,292 was related to prior employees' flex spending account card expenditures which were not recorded in the accounting system as of September 28, 2022.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage Town officials to continue their efforts to fully implement our recommended improvements.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Gary G. Gifford, Chief of Municipal Audits in our Glens Falls Regional Office at (518) 793-0057.

Sincerely,

Elliott Auerbach
Deputy Comptroller