

Town of Addison

Supervisor's Fiscal Responsibilities

APRIL 2019



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

Contents

- Report Highlights 1**

- Supervisor’s Fiscal Responsibilities 2**
 - What Are the Supervisor’s Fiscal Responsibilities? 2
 - The Supervisor Did Not Provide Adequate Oversight of His Bookkeeper 2
 - What Do We Recommend? 7

- Appendix A – Response From Town Officials 9**

- Appendix B - OSC Comment on the Town’s Response 11**

- Appendix C – Audit Methodology and Standards 12**

- Appendix D – Resources and Services. 14**

Report Highlights

Town of Addison

Audit Objective

Determine if the Supervisor adequately fulfilled his fiscal responsibilities.

Key Findings

- The Supervisor did not adequately fulfill his fiscal responsibilities because he failed to provide oversight of the Bookkeeper, who performs all financial duties, including online banking, on her personal computer.
- Adequate accounting records were not maintained.

Key Recommendations

The Supervisor should:

- Collect, disburse and maintain custody of all Town funds in accordance with policies, procedures and Town Law.
- Provide proper oversight of the bookkeeper.
- Maintain adequate accounting records.

Town officials generally agreed with our recommendations and stated they initiated corrective action. Appendix B includes our comment on an issue that was raised in the Town’s response letter.

Background

The Town of Addison (Town) is located in Steuben County. The Town Board (Board) is composed of the elected Town Supervisor and four elected Board members and is the legislative body responsible for the general management and control of the Town’s financial and operational affairs.

The Supervisor serves as the Town’s chief financial officer (CFO) and is responsible for the Town’s day-to-day financial activities, including maintaining accounting records and providing monthly financial reports to the Board. The Board appointed a bookkeeper to assist the Supervisor in performing these financial duties.

Quick Facts

Population	2,595
2019 Budget	\$813,206
Bank Balances as of January 31, 2018	\$918,194
Bank Balances as of August 31, 2018	\$874,095

Audit Period

January 1, 2017 – December 10, 2018

Supervisor's Fiscal Responsibilities

What Are the Supervisor's Fiscal Responsibilities?

The town's financial data must be complete, accurate and up-to-date to be relevant and useful for managing town operations. Town Law requires the supervisor, as CFO, to collect, receive and have custody of all money belonging to or due the town,¹ pay board-approved claims on warrant of the town clerk,² and maintain a complete and accurate account of the receipt and disbursement of all town moneys in accordance with the accounting system prescribed by the State Comptroller.³ If the supervisor assigns these duties to a bookkeeper, the supervisor must provide sufficient oversight over the duties performed by his bookkeeper by ensuring duties are properly segregated or that mitigating controls are in place.⁴ Although the supervisor is the CFO of the town, the town clerk and justice are both independent elected officials with strict liability for the public funds they are responsible for. As a result, others should not have access to their official bank accounts.

The Supervisor Did Not Provide Adequate Oversight of His Bookkeeper

The Supervisor delegated his financial responsibilities to another employee, the bookkeeper, and failed to provide oversight. The bookkeeper collects, records and deposits receipts and makes online transfers without oversight, including inappropriately making transfers directly from the bank accounts of the independently elected Town Clerk and Justice. She also performs Automated Clearing House (ACH) debits,⁵ initiates online bill payments and debit card payments without authorization from the Supervisor, prepares and prints checks from the check stock kept at her home, and records disbursements in a computerized accounting program on her personal computer.

1 Town Law, Section 29(1)

2 Exceptions include payment of fixed salaries, principal and interest on indebtedness, regular or stated compensation of officers and employees, and amounts becoming due upon lawful contracts exceeding one year Town Law, Section 125(1). The supervisor may make payments in advance of audit for public utility services, postage, freight and express charges if authorized by the town board (Town Law, Section 118(2)). Disbursing moneys only by check (Town Law, Section 29(3)). Exceptions include petty cash payments (Town Law, Section 64(1-a)) and electronic or wire transfers (General Municipal Law (GML), Section 5-a).

3 OSC prescribes a Uniform Systems of Accounts pursuant to GML, Section 36. The System of Accounts provides a standard chart of accounts and fund structure that is the basis for the uniform annual financial reports required filed with the State Comptroller pursuant to GML, Section 30 .

4 Oversight activities can include reviewing budget-to-actual and other financial reports, bank reconciliations, bank statements and canceled check images and reviewing and approving disbursements prior to payment.

5 ACH payments are electronic payments that pull funds directly from a checking account. Instead of writing out a paper check or paying with debit card, the money moves automatically .

Although the bookkeeper completes monthly bank reconciliations, she does not provide the reconciliations and bank statements to the Supervisor or Board for review or provide adjusting/correcting entries to the Supervisor for approval. All online transactions, recording of financial transactions, and preparing of the monthly Supervisor's financial reports to the Board are performed on the bookkeeper's personal computer. As a result, we could not assess the control environment of this computer, including who has physical access to the computer, whether passwords are used and are sufficiently secured, whether virus protection is in place and up to date, whether backups are regularly made and stored securely, whether personal, private and sensitive information is stored on the computer in a secured manner and whether the computer is scanned for malware and other threats.

Cash Receipts — The Board is responsible for establishing written policies and procedures for cash receipts that address the duties, procedures, records and oversight required to safeguard Town funds. It is important that detailed collection records and deposit tickets are maintained for verification that all receipts are accounted for and deposited.

Limited receipts are collected through the Supervisor's office because most are directly deposited, such as New York State aid. Any collections by mail are turned over to the bookkeeper for recording and deposit. Although checks for departmental revenue are received from the Town Clerk and Justice, the bookkeeper voids those checks and transfers the remittances directly from their bank accounts to the town-wide general fund's checking account using online banking.

Although the Supervisor and Board received monthly financial reports prepared by the bookkeeper that identified the money received, there was no independent verification of the bookkeeper's cash collection process. The Supervisor did not reconcile supporting documentation to collections deposited and recorded in the accounting system or included on the monthly reports.

Because the bookkeeper voided checks from the Clerk and Justice and accessed their bank accounts through the online banking, we reviewed all 28 transfers from their bank accounts totaling \$479,760 from January 1, 2017 through December 31, 2017. Although our review found no discrepancies, the bookkeeper's inappropriate online access to all Town bank accounts increases the risk that Town money could be lost or misappropriated without detection and errors or irregularities could occur and remain undetected and uncorrected.

Cash Disbursements — Town Law designates the Supervisor as the official responsible for signing checks, and as such, the Supervisor plays a critical role in the cash disbursement process. The Supervisor must ensure the disbursement of Town moneys made by check are signed by himself, or in his absence, by the

Deputy Supervisor. Town Law allows the Supervisor to hand-sign Town checks or use a facsimile signature, affixed by a check signer or other machine, which should be done under his direct supervision. The Supervisor should ensure his facsimile signature and blank check stock are properly safeguarded to prevent unauthorized payments and misuse of Town funds.

While disbursements may also be made by electronic payments and wire transfers through online banking, such disbursements should be authorized by the Supervisor, or in his absence, by the Deputy Supervisor. The Supervisor should also compare disbursements to warrants and certified payrolls prior to them being made to ensure disbursements are for authorized purposes, in the correct amount and made from the proper bank account.

Very few disbursements were made by check. The majority of the Town's disbursements were in the form of ACH debits, online bill payments and debit card payments that were made without authorization from the Supervisor. Also, the bookkeeper prepares and prints checks from the check stock kept at her home, and records disbursements in a computerized accounting program on her personal computer. From January 1, 2017 through December 31, 2017, the bookkeeper processed 378 disbursements totaling \$388,782, of which 353 disbursements totaling \$334,138 were ACH debits, online bill payments and debit card payments. To pay with ACH debits, the bookkeeper authorized the bank to pull funds directly from the Town's bank accounts by providing the biller's bank account and routing numbers. With online bill payments, the bookkeeper initiates the transaction and the bank pulls funds from the Town's checking account. Depending on the relationship with the biller, the bank will automatically transfer the funds from the Town's checking account to the biller's bank account or will issue a bank check and mail the check to the biller. The bookkeeper did not print or maintain any documentation related to ACH debits.

While the Board audited each bill, the Supervisor did not verify that the checks that cleared the bank or ACH debits were for proper Town purposes because he did not review canceled check images or bank transfers. Further, no one independently reviewed the bank reconciliations. Therefore, the bookkeeper, who has custody of the check stock and access to online banking, disburses funds without the knowledge of the Supervisor or Board.

Because the bookkeeper paid most of the Town's bills with no oversight, we tested June 2018 disbursements totaling \$23,795 and found they were appropriate Town expenditures. Because there was no supporting documentation, such as payee and amount, for the three ACH debits totaling \$6,071, we obtained this information directly from the bank and expanded our testing to review an additional 44 ACH debits totaling \$64,043. Our review found the ACH debits were appropriate; however, in December 2017, the bookkeeper paid herself \$500 more than the Board-approved voucher. Although it appears the voucher amount was

an error, Town officials could not confirm if the bookkeeper should have been paid \$2,000 as in each of the previous 11 months or the \$1,500 noted on the voucher.

Online Banking — Users of online banking can review current account balances and account information, including recent transactions, and transfer money between bank accounts and to external accounts. New York State GML⁶ allows Town officials to disburse or transfer funds in their custody by means of electronic or wire transfers, provided the governing board has entered into a written agreement with the bank. GML requires that this agreement prescribe the manner in which electronic or wire fund transfers will be accomplished and identify the names and numbers of bank accounts from which such transfers may be made and the individuals authorized to request the transfers. Town officials should adopt an online banking policy, provide cybersecurity awareness training and ensure that a dedicated town-owned computer is used for this purpose. GML requires the Town to implement a security procedure that includes verifying that a payment order is for the initiating Town and detecting payment order errors in transmission or content. It is essential that Town officials establish procedures and provide training to ensure that staff are securely accessing banking websites to help reduce the risk of unauthorized transfers from both internal and external sources.

The Town has one bank that it uses for online transactions by the bookkeeper that included electronic bill pay and ACH payments. Town officials did not have a copy of the bank agreement onsite and had to contact the bank to get a copy. Our review of the agreement signed February 2011, found it did not address online bill payment performed through the online banking website, list nine of the 18 bank accounts used for transfers, or set limits for the number and amount of transactions allowed. Although the agreement identified ACH debit transactions for the direct deposit of employee payroll and the transfer of money between accounts at other banks in the Town's name, it did not authorize ACH debits for other types of transactions that the bookkeeper performed. Finally, the agreement identified the bookkeeper and Supervisor as authorized administrative users, who had access to all functions and the ability to add, remove and modify users. This administrative access provides custody to the bookkeeper. However, because only the Supervisor can legally have custody, this should not occur.

In addition, the Board did not adopt an online banking policy or provide cybersecurity awareness training. Town officials also did not adequately segregate online banking duties. Specifically, the bookkeeper performed all online transactions without any oversight and used her personal computer instead of a dedicated Town computer for these transactions. In addition, the Supervisor did not enable notifications or other security measures including secondary approvals

⁶ New York State GML, Section 5-A

and email notifications every time an online transaction occurred. As a result, there is no assurance that authorized access to online bank accounts was limited and protected from threats from malicious software, which could subject cash assets to misappropriation.

Accounting Records — The Supervisor, as CFO, is responsible for maintaining accounting records that document the assets, liabilities, fund equity and results of operations (revenues and expenditures) for each Town fund on a modified accrual basis. Each fund is a fiscal accounting entity with a self-balancing set of accounts. Because a village is located within the Town, the Town must maintain separate funds to account for transactions that are required by law to be accounted for as part-town activities. Because the Town's financial transactions affect different tax bases, the Board must ensure that the Town's financial activity is recorded in the proper funds to maintain equity among residents. The accounting records also must be maintained in a complete, accurate and timely manner to be relevant and useful for managing Town operations, including ensuring the Town's fund balance is reasonable.

The reconciliation of bank account balances to general ledger cash balances allows for the timely identification and documentation of differences between the Town's book balances and bank balances. Bank reconciliations also serve as an internal verification of cash receipt and disbursement transactions. As such, bank reconciliations should be prepared and independently reviewed on a monthly basis. Any adjusting/correcting entries should be provided to the Supervisor for approval and the recording of the Town's financial transactions and preparing the monthly Supervisor's financial report should be performed on a town-owned personal computer.

The Bookkeeper did not maintain appropriate accounting records because her computerized accounting records were not organized on a fund basis, and they included inappropriate account codes, such as depreciation, inventory and retained earnings. Furthermore, the monthly reports presented to the Board commingled revenue and expenditures from all the funds. In addition, the modified accrual basis of accounting was not used as required for measuring the Town's financial position and operating results.

Although the bookkeeper completes the monthly bank reconciliations, she does not provide the reconciliations and bank statements to the Supervisor or Board for review. Finally, the Bookkeeper made numerous recording errors that she eventually corrected with unapproved adjusting journal entries. Because these errors were not timely identified or communicated to the Supervisor, the Supervisor's monthly financial reports presented to the Board were inaccurate and unreliable. As a result, the Board had inaccurate information about the Town's financial position.

What Do We Recommend?

The Supervisor should:

1. Collect, disburse and maintain custody of all Town funds in accordance with Board policies and procedures and Town Law.
2. Provide proper oversight of the bookkeeper, including ending the practice of accessing the Town Clerk's and Justice's bank accounts.
3. Reconcile supporting documentation to collections deposited, recorded in the accounting system or included on the monthly reports.
4. Compare disbursements via ACH debits, online bill payments or debit card payments to warrants and certified payrolls and authorize them prior to payment.
5. Ensure the bookkeeper prints or maintains documentation related to any ACH debits.
6. Maintain custody of his blank check stock and review canceled check images and bank transfers to verify that the checks that clear the bank or ACH debits are for proper Town purposes.
7. Ensure that all Town's financial data is located on the Town's computers, protected and safeguarded and that data located on the bookkeeper's personal computer is removed. Any data located on a computer that is not owned by the town should be removed.
8. Ensure that he uses a dedicated computer for online banking transactions.
9. Enable notifications and other security measures available from the banks, including secondary approvals and email notifications every time an online transaction occurs.
10. Maintain adequate accounting records on a modified accrual basis that account for all cash receipts and disbursement activities on a fund basis.
11. Ensure that reports presented to the Board do not commingle revenues and expenditures from different funds together.
12. Ensure that the bookkeeper provides the reconciliations and bank statements to the Supervisor or Board for review.
13. Ensure that the bookkeeper provides any adjusting/correcting entries to the Supervisor for approval.

The Board should:

14. Establish written policies and procedures for cash receipts and disbursements and online banking that address the duties, procedures, records and oversight required to safeguard Town funds.
15. Ensure that the written agreement with the bank is sufficient and that those who perform online banking transactions are familiar with its content. The banking agreement should address online bill payment through the online banking website, list all accounts used for transfers and set limits for the number and amount of transactions allowed and authorize ACH debits and other types of transactions that the bookkeeper is allowed to perform. In addition, the agreement should limit administrative user and functions to the Supervisor.
16. Provide cybersecurity awareness training.

Appendix A: Response From Town Officials

Town of Addison

21 Main Street

Addison NY 14801

Response from Town Supervisor pertaining to recommendations from NYS Comptrollers auditors.

What was recommended.

The Supervisor should :

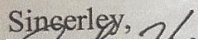
1. Collect, disburse and maintain custody of all Town funds in accordance with Board policies and procedures and Town Law.
2. Provide proper oversight of the bookkeeper, including ending the practice of accessing the Town Clerks and Justice bank accounts.
3. The Supervisor should reconcile supporting documentation to collections deposited, recorded in the accounting system or included on the monthly reports.
4. The Supervisor should compare disbursements via ACH debits, online bill payments or debit card payments to warrants and certified payrolls and authorize them prior to payment.
5. The bookkeeper should print or maintain documentation related to any ACH debits.
6. The Supervisor should maintain custody of his blank check stock and review canceled check images and bank transfers to verify that the checks that clear the bank or ACH debits are for proper Town purposes.
7. Ensure that all Town financial data is located on the Towns computers, protected and safeguarded and that data located on the bookkeepers personal computer is removed. Any data located on a computer that is not owned by the town should be removed.
8. Ensure that he uses a dedicated computer for online banking transactions.
9. Enable notifications and other security measures available from the banks, including secondary approvals and email notifications every time an online transaction occurs.
10. Maintain adequate accounting records on a modified accrual basis that account for all cash receipts and disbursement activities on a fund basis.
11. Ensure that reports presented to the Board do not commingle revenues and expenditures from different funds together.
12. Ensure that the bookkeeper provides the reconciliations and bank statements to the Supervisor or Board for review.
13. Ensure that the bookkeeper provides any adjusting/correcting entries to the Supervisor for approval.


Reply to recommendations:

1. The Supervisor is currently collecting, disbursing and maintain Town funds or is in the process of implementing processes to comply with Board policies and Town Law.

2. Increased oversight of the financial activities and the discontinuance of the bookkeeper access to Town Clerk and Justice bank accounts has been implemented.
3. The Supervisor is currently reconciling documentation to collections deposited.
4. The comparison of Automated Clearing House (ACH) payments, online bill payments and debit card payments to payroll and warrants prior to payment is in full force.
5. The bookkeeper is maintaining documentation related to ACH debits.
6. The Supervisor has custody of blank check stock and reviews canceled check and bank transfers.
7. The Town is currently studying the best way to dedicate one exclusive computer for the use of the Supervisor and Bookkeeper outfitted with security and notifications that provide reasonable protective measures.
8. An update of our accounting records so that cash receipts and disbursements are on a modified accrual basis will commence with the arrival of a new bookkeeper or accounting institution. Our current bookkeeper regrettably, intends on retiring and this seems to be a sensible time to implement the modification.
9. Reports have been changed so that revenues and expenditures from different funds are isolated.
10. The bookkeeper for some time has presented the Town Supervisor reconciliations and bank statements and also adjusting or correcting entries.

I am thankful to the Comptrollers office for the recent audit. Over the last ten years there has been significant personal change in the makeup of the board. An example being that I'm the sixth supervisor in this length of time. This high turnover leads to concerns of how the towns elected officials are handling affairs, namely financial. It was a relief to see the taxpayers s money correctly accounted for. We do have process issues like most towns but a relief all the same. We have made some changes and are in the process of making more to bring us in line to the auditors recommendations. A thank you to the auditors who were very professional and helpful with advice on schooling and literature to make me a better Town Supervisor.

Sincerley, 


Jack Thompson

Town of Addison Town Supervisor

See Note 1 Page 11

Appendix B: OSC Comment on the Town's Response

Note 1

During the audit, we confirmed with the bookkeeper that she did not provide reconciliations, bank statements or adjusting or correcting entries for the Supervisor's review during the audit period.

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 responsible for financial oversight and maintaining accounting records and reviewed Board minutes to obtain an understanding of the Town's policies and procedures.
- We interviewed the bookkeeper to gain an understanding of online banking procedures at the Town.
- We scrutinized all transfers between Town bank accounts including 28 transfers between the Town Clerk's and Town Justice's bank accounts to the Town's bank accounts to ensure all transfers out of Town's bank accounts were accounted for.
- We randomly selected June 2018 testing disbursements totaling \$23,795 to determine whether they were appropriate Town expenditures.
- We obtained ACH debits from January 1, 2017 through December 31, 2017 from the bank. We traced 44 ACH debits totaling \$64,043 to Board-approved vouchers to determine if they were approved and accurate.
- We reviewed the Town's financial records and reports (e.g., balance sheet, general ledgers, budget status reports and journal entries) and compared them to bank statements to determine whether the accounting records were accurate and timely from January 1, 2017 through December 31, 2017. We also compared the accounting records to the annual update document (AUD) to determine if the AUD was accurate.
- We scanned general journal entries for unusual transactions.

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 Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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110 State Street, 12th Floor, Albany, New York 12236

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www.osc.state.ny.us/localgov/index.htm

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

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