



Town of Marcellus

Supervisor's Records and Reports

Report of Examination

Period Covered:

January 1, 2010 — August 31, 2013

2013M-375



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2014

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Marcellus, entitled Supervisor's Records and Reports. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of Marcellus (Town) is located in Onondaga County and has a population of 6,200. The incorporated Village of Marcellus (Village) is located within the Town's boundaries. The Town Board (Board), which comprises the Supervisor and four council members, is the legislative body responsible for managing Town operations and for overseeing its financial activities. The Town Supervisor (Supervisor), as the chief financial officer, has the overall responsibility to receive and disburse Town money, maintain the accounting records, prepare and distribute monthly financial operating reports to the Board and department heads and prepare and file annual financial reports with the Board and the Office of the State Comptroller (OSC). The Supervisor has appointed a bookkeeper to assist him with these responsibilities.

The Town provides various services to its residents, including street maintenance and improvement, parks and recreation, water, sewer and general government support. The Town's budgeted expenditures for 2013 were approximately \$3.7 million. These expenditures were funded primarily with revenues from real property taxes and State aid.

Objective

The objective of our audit was to determine if the Supervisor properly accounted for and reported the Town's financial transactions. Our audit addressed the following related question:

- Did the Supervisor maintain complete and accurate accounting records and reports?

Scope and Methodology

We examined the Supervisor's records and reports for the period of January 1, 2010 through August 31, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to take corrective action.

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 forwarded to our office within 90 days, pursuant to Section 35 of the 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 this plan available for public review in the Town Clerk's office.

Supervisor's Records and Reports

The Supervisor is responsible for maintaining adequate accounting records and financial documents that provide an accurate accounting of all financial transactions. The Supervisor should also provide the Board with comprehensive monthly reports that include complete financial information for each of the Town's funds. The Supervisor is further required to prepare and file an annual financial report with OSC within the time limits prescribed by law.¹ If the Supervisor assigns his recordkeeping duties to a bookkeeper, he must provide sufficient oversight to ensure that the records maintained are complete, timely and accurate. Finally, Town Law requires that the Board annually audit, or have an independent public accountant audit, the Supervisor's records.

The Supervisor did not maintain complete and accurate accounting records and reports for all Town funds or ensure that bank reconciliations were properly performed. This resulted in accounting errors and the failure to file annual financial reports with OSC in a timely manner. Further, the Board did not annually audit, or have an independent public accountant audit, the Supervisor's records. As a result, the Board cannot effectively monitor the Town's fiscal affairs and there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

Records

The Supervisor is responsible for maintaining accurate and complete accounting records to ensure that assets, liabilities, fund balance and results of operations (revenues and expenditures) accurately reflect all Town financial activity. The Supervisor is also responsible for ensuring that monthly bank statement balances are reconciled with the cash balances recorded in the Town records to help verify that all cash receipt and disbursement transactions are captured and properly recorded. It is important that the bookkeeper maintain separate records for each Town special district to identify the individual transactions and fund balance for each separate special district and to maintain appropriate records to track reserve fund activity. Further, the amounts recorded as interfund receivables should agree with the amounts recorded as interfund payables.

The bookkeeper informed us that when she began her duties in December 2010 she could not find any evidence that the former

¹ General Municipal Law requires that the Supervisor file an annual financial report with OSC and the Town Clerk within 90 days from the close of the Town's fiscal year. In the event Town officials anticipate missing the deadline, an extension can be requested allowing the Town up to 120 days to file the report.

bookkeeper reconciled the bank statement balances with the cash recorded in the Town's accounting records. Therefore, she attempted to reconcile the bank accounts as of December 31, 2009 and found that total cash recorded in the accounting records for all funds combined was \$74,245 less than the total adjusted bank balance.²

To verify the accuracy of the 2010 accounting records maintained by the former bookkeeper, the current bookkeeper compared that year's bank statement activity with the transactions recorded in the accounting system and found several accounting errors. The most significant errors were that the former bookkeeper, at times, did not make all of the required bank transfers into the general fund bank account for amounts due from other funds,³ and failed to record certain revenues in the accounting records, such as \$72,000 in mortgage tax and \$10,000 in Justice Court fines and fees. The current bookkeeper made adjusting entries to correct the errors identified in 2010 but could not identify the cause of the \$74,245 difference because it occurred in prior years. Because the bookkeeper's review of 2010 records did not disclose any fraudulent activity and it would take considerable time and effort to compare all bank activity with the accounting records for 2009 and prior years, the Supervisor decided not to review prior years' records to try to identify the cause of the \$74,245 difference.⁴

However, the Supervisor took no additional action to adjust the accounting records to agree with the bank balances so the bookkeeper could begin reconciling the accounting records with the bank balances going forward. The bookkeeper continued to record 2011, 2012 and 2013 transactions without attempting to reconcile the bank accounts. Furthermore, when the Town converted to a new computer system in June 2013, the bookkeeper only transferred 2010 to present financial activity into the new system. The bookkeeper did not carry ending 2009 balances forward to 2010, because she did not want to enter any balances into the new system until the Supervisor provided guidance on the adjusting journal entries that should be made (so that the book balances would agree with cash bank balances). However, without carrying these balances forward in the new system, the bookkeeper could not generate complete and accurate financial reports.

Although the new computer system allowed the bookkeeper to provide Town officials with monthly budget-to-actual results for

² Adjusted for outstanding checks and deposits-in-transit

³ The Town pays its routine bills, for all funds, from the general fund checking account. Therefore, bank transfers from the respective funds' savings account to the general fund checking account were necessary to pay these funds' expenditures.

⁴ The \$74,245 difference was 3 percent of the Town's total bank balance as of December 31, 2009.

subsidiary revenue and expenditures accounts, she could not provide an accurate picture of Town assets (e.g., cash), liabilities or fund balance for each fund, including special district funds. For example, when we compared the total adjusted amount of cash in the bank with the recorded cash balances as of August 31, 2013, we identified about \$3.2 million more in the bank than was recorded in the accounting records. Part of this discrepancy was due to errors in the general and part-town funds, which had about \$560,000 less in the bank than was recorded in the accounting records, and in the town-wide highway fund, which had just over \$1 million more in the bank than was recorded in the accounting records.

We reviewed 19 receipts and 20 disbursements and found that the bookkeeper correctly recorded them. However, our review of other accounting records revealed the following:

- The Town's 18 special districts included eight water districts, five hydrant districts, two sewer districts, two water supply districts and one drainage district. While all special district financial activity was recorded in a single water fund, hydrant fund, sewer fund and drainage fund, separate accounting records were not maintained for each special district.⁵
- Interfund payables exceeded interfund receivables among all funds by \$19,116 as of August 31, 2013. This discrepancy was primarily the result of the bookkeeper improperly recording journal entries to an interfund loan account when she intended to transfer surplus fund balance to a park capital reserve.
- The bookkeeper did not record \$675,000 of revenues received in 2011 in the fire protection fund. As a result, this fund erroneously showed a deficit fund balance in the accounting records at the end of 2011 and subsequent years. When the Town issued debt to purchase a building from the Village for use by the Town's Fire Department, the bookkeeper did not record the bond proceeds as a receipt, but did record the building purchase as an expense.
- The bookkeeper improperly recorded \$70,000 in 2011 as an interfund transfer from the town-wide highway fund to the capital fund instead of reclassifying this as a transfer to the

⁵ Each specific type of special district activity may be combined for financial reporting purposes (e.g., the Town's six water districts may be reported in a single water fund). However, because each special district is funded by assessments upon property owners who benefit from the services, and/or by user charges, separate accounting records should be maintained for each district. This provides transparency to Town officials and taxpayers about whether each special district operates efficiently and equitably.

town-wide highway fund's capital equipment reserve. As a result, town-wide highway fund expenditures were overstated by this amount.

We also reviewed the December 31, 2012 bank statements⁶ to assess the Town's available cash balances compared with the 2013 budget appropriations. We found that the Town's total cash balances were approximately \$2.96 million, while the 2013 budget appropriations for all funds totaled approximately \$3.65 million or about 81 percent of the next year's budget.

The bookkeeper told us that reserve funds were not recorded in the accounting records when she began working for the Town, even though the Board passed resolutions to establish reserves in prior years. The bookkeeper and Supervisor estimated that about \$279,000 should have been recorded in a town-wide highway fund equipment reserve.⁷ However, even if this amount were attributable to reserve funds, the Town's unreserved cash would still exceed 2013 budget appropriations by 73 percent.

The lack of accurate accounting records precludes the Board from monitoring and managing financial operations and assessing financial conditions. Further, without special district operation transparency, Town officials and taxpayers cannot be certain that these services were efficiently and equitably provided.

Reports

Complete and accurate monthly reports provide essential financial information that the Board can use to monitor the Town's financial condition. Because the usefulness of financial information depends on its timeliness, the Supervisor should file the annual financial report with OSC within the required time limits.

The bookkeeper provided the Board with monthly reports containing budget-to-actual revenues and expenditures and the bank statement balances. However, she could not provide the Board with fund balance amounts and the reconciled cash balances for each fund or special district.

⁶ We included only those bank statements under the Supervisor's direct control. Therefore, bank accounts maintained by the Town Justice, Town Clerk and Tax Collector for their respective departments were not included in our comparison.

⁷ The bookkeeper made a concerted effort with the Highway Superintendent to determine the amount of funding needed for the highway reserve according to prior years' adopted budgets and the equipment actually purchased in an attempt to determine the amount that should be recorded in the highway equipment reserve.

The bookkeeper also told us that, due to her inability to reconcile cash, she was not able to prepare and file the annual financial reports with OSC for 2010, 2011 or 2012. This lack of accurate financial information may have contributed to the Town accumulating an excessive amount of cash. The failure to file accurate and timely annual financial reports with OSC denies the Board and the public a primary fiscal tool to monitor the financial affairs of the Town, including the Town's financial condition.

Annual Audit

Town Law requires the Supervisor to present his books and records to the Board for audit by January 20th of the following year.⁸ An annual audit helps the Board fulfill its fiscal oversight responsibilities by providing it with an opportunity to assess the reliability of the books, records and supporting documents. It also serves to identify conditions that need improvement and provides useful information to help the Board oversee the Town's financial operations.

The Board did not perform, or provide for, annual audits of the Supervisor's records for 2010, 2011 and 2012. Had the Board performed the required audits, Board members may have noticed that the Supervisor and bookkeeper were not preparing monthly bank reconciliations, questioned the deficit fund balance erroneously recorded in the fire protection fund or discovered the lack of reserve fund records.

Recommendations

1. The Supervisor should periodically review the work of the bookkeeper to ensure that all financial activity is accounted for completely and accurately and that monthly bank reconciliations are performed. The Supervisor should also ensure that any discrepancies disclosed are promptly investigated and corrected.
2. The Supervisor should separately account for the financial activity and fund balance for each individual special district.
3. The Supervisor should provide monthly financial reports to the Board that include fund balance amounts, reconciled cash balances and budget-to-actual comparisons for each fund and special district.
4. The Supervisor should ensure that the bookkeeper records the appropriate adjusting journal entries necessary to correct the inaccuracies in the Town's accounting records.

⁸ The Board may also engage the services of a certified public accountant or public accountant to perform the annual audit within 60 days of the close of the fiscal year.

5. The Supervisor should ensure that the bookkeeper maintains appropriate records to track reserve fund activity. The reserve fund records should, at a minimum, include:
 - Date and amount of each payment made to fund the reserve,
 - Interest earned,
 - Capital gains or losses resulting from the sale of investments,
 - Amount and date of each withdrawal and
 - Total reserve assets, showing cash balances and a schedule of investments.
6. The Supervisor should file the Town's annual financial report with OSC and the Clerk within 90 days after the close of the fiscal year, or 120 days after the close of the fiscal year if an extension is granted.
7. The Board should conduct an annual audit of the Supervisor's records or engage an independent auditor to conduct the audit. For guidance on conducting annual audits, Town officials should refer to our publication entitled, *Local Government Management Guide – Fiscal Oversight Responsibilities of the Governing Board*.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.

Supervisor
Mary Jo Paul

Councilors
Kevin O'Hara
Peter Hakes
John Scanlon
Karen Pollard



Town Clerk
Sandy Taylor

Tax Collector
Elaine Potter

Highway Superintendent
Donald MacLachlan

MARCELLUS

— New York —

February 13, 2014

Chief Examiner
Office of the State Comptroller

The Marcellus Town Board would like to thank the Office of the State Comptroller and Auditor [REDACTED] for the valuable critique of our financial practices.

The audit was both thorough and comprehensive. The valid recommendations, when enacted, will help us prepare and file our 2010, 2011, 2012 & 2013 AUD reports and provide guidance for better oversight of our financial records going forward.

Respectfully,

Mary Jo Paul

Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the Supervisor was properly accounting for and reporting financial transactions for the period of January 1, 2010 through August 31, 2013.

To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed the Supervisor and the bookkeeper to gain an understanding of the accounting records and document why the 2010, 2011 and 2012 annual financial reports had not been submitted to OSC.
- We reviewed the Town's computerized financial records (e.g., trial balances and journal entries) and compared to transactions on bank statements to determine the reasonableness of recorded transactions.
- We reviewed two months of receipts for two checking accounts (August 2012 and June 2013) and two months of receipts for two savings accounts (February 2012 and February 2013) to ensure that these receipts were deposited into Town bank accounts and bank transfers were properly recorded in the accounting records. We arbitrarily selected these checking accounts and months and had no expectation that more or fewer errors would occur in the sample months than in any other month.
- We reviewed all the abstracts and payrolls paid in August 2012 and June 2013 to ensure that these disbursements and bank transfers were properly recorded in the accounting records. When we selected these months for our sample, we had no expectation that more or fewer errors would occur in the sample months than in any other month.
- We compared the Town's adjusted bank balances for all funds with the cash recorded in the accounting records as of August 31, 2013.
- We reviewed budget-to-actual results for all funds for 2010 through 2012.
- We interviewed Town officials to determine if an annual audit was performed of the Supervisor's records and reports and to gain an understanding of their review of monthly reports.

We conducted this performance audit in accordance with 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.

APPENDIX C

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Nathalie N. Carey, Assistant Comptroller

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