



Town of Schroepfel Cash Disbursements

Report of Examination

Period Covered:

January 1, 2013 — March 31, 2014

2014M-296



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2015

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 Schroepel, entitled Cash Disbursements. 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 New York State 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 Schroepel (Town) is located in Oswego County and has a population of approximately 8,500 residents. The Town is governed by an elected five-member Town Board (Board) which comprises the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing Town operations, finances and overall management. The Supervisor¹ serves as the Town's chief executive officer and chief fiscal officer (CFO). The Board appointed a Town Comptroller (Comptroller) who is responsible for auditing and approving claims. In addition, the Comptroller maintains the Town's accounting records.²

The Town provides various services to its residents, including street maintenance and improvements, snow removal, youth programs, water and sewer and general governmental support. The Town's budgeted expenditures in 2014 were approximately \$3 million, funded primarily by real property taxes and State aid.

Objective

The objective of our audit was to examine internal controls over cash disbursements. Our audit addressed the following related question:

- Are internal controls over cash disbursements appropriately designed and operating effectively to adequately safeguard Town assets?

Scope and Methodology

We examined the Town's cash disbursement records and procedures for the period January 1, 2013 through March 31, 2014.

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 initiate corrective action.

¹ A newly elected Supervisor began office on January 1, 2014.

² The Board, by resolution, may designate the Comptroller as the Town's accounting officer and thereby transfer all of the Supervisor's accounting duties to the Comptroller.

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.

Cash Disbursements

Town officials are responsible for establishing internal controls to ensure that Town assets are adequately safeguarded. An effective system of internal controls provides for cash to be disbursed only by authorized individuals, supported by appropriate documentation and used for valid Town purposes. This also includes properly segregating duties and providing oversight for cash disbursements and payroll processes so that no one individual controls all phases of a transaction. Assigning key duties (such as accounting records maintenance, cash custody and cash reconciliations) to the same individual weakens controls and increases the risk that errors and irregularities could occur and go undetected. Good internal controls should also include the Board annually auditing or engaging an independent public accountant to audit the Comptroller's records.

Internal controls over cash disbursements were not properly designed and operating effectively. Cash disbursement duties were not properly segregated, because the Comptroller maintained the Town's records, had custody of cash (i.e., the ability to disburse funds) and performed bank reconciliations. The Comptroller disbursed cash totaling \$596,577 during our audit period. Although these payments were for proper Town purposes, by statute the Supervisor is required to disburse Town money. In addition, the Supervisor disbursed questionable payments totaling \$9,340. Finally, the Board did not annually audit the Comptroller's records. As a result, Town officials do not have adequate assurance that cash is properly accounted for and all disbursements are approved and for appropriate Town purposes.

Segregation of Duties

A town supervisor is designated by statute to act as the town's treasurer to collect, receive and have care and custody of town money. These duties include signing and disbursing all checks, including disbursing money through online bank transfers or electronic payments. A town comptroller is required by statute to audit all claims and to prepare an abstract (list) of Board-approved claims. The abstract, directed to the supervisor, is the supervisor's authorization to pay the claims.

When a board, by resolution, designates a comptroller as the town's accounting officer and transfers the supervisor's accounting duties, such duties can include keeping detailed accounting records and preparing monthly reports and annual financial reports. The positions of town comptroller and town supervisor by statutory directive are designed to separate financial duties and act as an effective means to ensure that no individual controls all phases of a transaction.

The Comptroller maintained the Town's accounting records, processed payrolls, performed monthly bank reconciliations and audited and approved claims for payment. Although not required by law, a Board member and the current and former Supervisors also performed an additional audit of claims before they were paid. The Comptroller prepared checks and the Supervisor signed the checks upon receiving an abstract from the Comptroller that authorized the payments. However, the Comptroller was also allowed to sign Town checks and make bank transfers and electronic payments, which are treasury functions that by law the Supervisor must perform. Furthermore, there was no process in place for either the Supervisor or the Board to review the Comptroller's bank reconciliations or the bank statements and canceled checks to help identify any unauthorized checks or electronic transfers and payments.

Additionally, final payrolls were not effectively reviewed or certified by any Town official. Although the current Supervisor certified the payroll, she did not perform a thorough and effective review, because she reviewed employees' combined total gross payroll amounts without reviewing any supporting documents to determine whether the payments were proper. As a result of these deficiencies, there is a risk that unauthorized or inappropriate disbursements could be made without detection.

To address these risks, we reviewed 29 bank transfers between Town accounts totaling \$535,069, all the November 2013 payrolls totaling \$94,542 and all payments made during our audit period to the Comptroller and the current and former Supervisors totaling \$59,463. We found these disbursements were for proper Town purposes. However the Comptroller made improper bank transfers totaling \$594,651,³ because by law she has no authority to disburse or maintain custody of Town money. As a result, there is a risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

We also reviewed 63 non-payroll check disbursements totaling \$163,602.⁴ We examined the canceled checks and endorsements to verify that the payee names and amounts agreed with approved abstracts and that the disbursements were adequately supported, for proper Town purposes and paid after authorization. The Comptroller improperly signed five checks totaling \$1,926. Although adequately supported and for proper Town purposes, these checks should have been signed by the Supervisor.

³ This comprises \$535,069 in transfers between Town bank accounts and \$59,582 in payroll related electronic payments.

⁴ See Appendix B, Audit Methodology and Standards, for our selection process.

Further, we identified \$9,340 in questionable payments made during the audit period.⁵ Specifically, the former Supervisor paid \$8,590 in employee insurance premiums that should not have been paid and \$750 in personal cell phone charges that should have been reimbursed to the Town.

Employees' Insurance Contributions – The Town's monthly medical insurance bill totaling \$16,249 included \$539 in health insurance premiums for a part-time clerical employee and \$64 in dental and vision insurance premiums for a full-time highway employee. These premiums should have been paid by the employees according to the Town's employee handbook and the highway department's collective bargaining agreement. Our review of payroll records for both employees disclosed that no withholdings were deducted to contribute toward the employees' share of these insurance costs.

Town officials told us that the clerical employee was a full-time employee who became a regular part-time employee in 2010. The Town's employee handbook establishes different contribution rates for full-time and regular part-time employees to contribute towards the cost of their health insurance coverage.⁶ When the employee became regular part-time, she began contributing towards her insurance coverage at the regular part-time employee contribution rate until she canceled her coverage in 2011. In 2012, she remained a regular part-time employee and again requested to participate in the Town's insurance plan. The former Supervisor told us the Board agreed to pay 100 percent of her insurance costs at that time. However, other Board members told us it was the Board's intention that she contribute towards the cost of health insurance at the full-time employee contribution rate that was in effect when she rejoined the plan.

According to the Board minutes, the Board authorized the Town to reinstate her health benefits at the full-time contribution rate at its May 2012 meeting, even though she was a regular part-time employee. However, based on our review of insurance claims and payroll records, the Town has not applied the full-time employee contribution rate to this employee and the Town therefore covered the full health insurance premium cost for the employee and her

⁵ Our initial test of disbursements disclosed exceptions. We therefore expanded our review to include similar claims paid during our audit period.

⁶ Effective January 1, 2011, regular part-time employees who participate in the Town's health insurance plan must pay 100 percent of the costs of coverage for themselves and their dependents. Full-time employees must contribute 25 percent towards the cost of their coverage and 50 percent towards the cost of coverage for their dependents. Temporary and seasonal part-time employees are not considered regular part-time employees and therefore are not eligible to participate in the Town's health insurance plan.

dependents. The Comptroller told us the highway employee requested additional coverage during our audit period, but, due to an oversight, the Comptroller did not update this employee's payroll withholdings to deduct the required contribution.

Using the Board-authorized full-time employee contribution rate, we found that the Town paid \$8,145 for the clerical employee's share of health insurance premiums and \$445 for the highway employee's share of dental and vision insurance premiums during our audit period. According to the Board's authorizations, the employees should have covered these costs.

Cell Phone Charges – The Town paid a \$356 cell phone bill that included \$101 for the former Supervisor's cell phone coverage for two cell phones. Town officials told us one of the phones belonged to the former Supervisor's spouse, who was not a Town employee.

Our review of cell phone claims disclosed that \$750 was paid from May through December 2013 for the spouse's cell phone service without reimbursement to the Town. Although the Comptroller audited and approved these claims, these expenditures were not appropriate Town purposes.

Lastly, we reviewed all bank reconciliations completed by the Comptroller for all Town bank accounts as of December 31, 2013 to determine whether they were accurate and agreed with the accounting records. Although we did not find any discrepancies, frequent supervisory reviews of reconciliations and the supporting bank statements and canceled checks can help ensure that recorded cash balances are accurate and disbursements are authorized. Such reviews could also help uncover errors or irregularities that may require further investigation and corrective action.

Annual Audit

To help the Board fulfill its oversight responsibilities, the Board should annually audit the Comptroller's books and records or engage an independent public accountant to perform the audit. This annual audit serves as an important internal control over cash disbursements by providing independent verification that transactions have been properly recorded and that cash has been properly accounted for. This is especially critical when duties are not adequately segregated.

The Board did not audit, or contract with an independent public accountant to audit, the Comptroller's accounting records. As a result, the Board does not have adequate assurance that the Comptroller properly accounted for all Town financial resources. Therefore, there

is an increased risk that public money could be misappropriated or errors or irregularities could occur and remain undetected and uncorrected.

Recommendations

The Board should:

1. Review and modify, as appropriate, the duties of the Supervisor and Comptroller to reflect the intended internal controls for these positions provided by statute.
2. Ensure that payrolls are thoroughly reviewed and certified by a Town official independent of the payroll process.
3. Consider taking action to recover the insurance premium costs for employees' share of insurance and the costs for inappropriate cell phone service.
4. Annually audit the Comptroller's records or have an independent public accountant do so.⁷

The Comptroller should:

5. Only authorize those claims for payment that are for proper Town purposes.

⁷ To assist in performing this audit function, the Board should review our publication entitled *Fiscal Oversight Responsibilities of the Governing Board* available on our website at:

http://www.osc.state.ny.us/localgov/pubs/lmg/fiscal_oversight.pdf

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF SCHROEPPPEL

69 County Route 57A
Phoenix, NY 13135
Phone 695-4473
Fax 695-3231

Supervisor
Lynett Greco

Council Members:

Timothy Dunnigan
William Godfrey
Steve Hutchins
Paul VanDyke

Town Clerk:

Darlene Owens

Highway Superintendent:

Clifford Hoyt

RE: Audit for the Town of Schroeppele

Date: December 16, 2014

Unit Name: Town of Schroeppele

Audit Report Title: Cash Disbursements

Audit Report Number: 2014M-296

Audit Recommendation: **Segregation of Duties**

Implementation Plan of Action(s):

- a) This was immediately divided when it was brought to our attention while the examiner was present. The Supervisor made all Deposits and all checks were immediately only signed by her or her Deputy. Also the Comptroller that was in the position and doing all duties is no longer here and the current Comptroller is NOT Clerk to himself and comptroller as it was prior. We will also be doing an annual audit of the Comptrollers records.

Implementation Date:

- a) July 28, 2014

Person Responsible for Implementation:

- a) Lynett Greco - Town Supervisor and the Town Board

Audit Recommendation: **Employees' Insurance Contributions**

Implementation Plan of Action(s):

- a) On November 19, 2014 a letter went out to the Employee from our Town Attorney regarding her Health Insurance and that effective 12/31/2014 that she could continue with Health care coverage but NOT at the Town's expense. As this was an oversight from the Comptroller. The Town Board is still talking in regards to recovery of these funds. Also we will talk to our New Comptroller regarding repayment for the highway employees' overpayment and request a re-imbusement.

Implementation Date:

- a). November 19, 2014

Person Responsible for Implementation:

- a) The Town Board along with our Legal Counsel

Audit Recommendation: **Cell Phone Charges**

Implementation Plan of Action(s):

- a) The Board recognizes that the prior Supervisor had another phone line that was being paid by the Town for his spouse and the Town Board will be sending out a letter regarding the repayment for this.

Implementation Date:

- a) December 29, 2014

Person Responsible for Implementation:

- a) The Town Board and the Current Supervisor along with our Legal Counsel

Signed:


Lynett M. Greco

Town of Schroepel Supervisor

Date:

December 24, 2014

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine internal controls over cash disbursements for the period January 1, 2013 through March 31, 2014. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and documented and evaluated internal controls over key aspects of recordkeeping and disbursement processes and application controls related to the Town's accounting system.
- We reviewed all payroll payments made to the Comptroller and the former and current Supervisors during our audit period. We also reviewed the salaries paid to the Comptroller, the former Supervisor and the current Supervisor and verified that the payments agreed with the salary amounts approved by the Board and that these disbursements were made by the Supervisor. We also reviewed all 19 non-payroll payments made to the Comptroller⁸ and all non-payroll payments made to the former Supervisor⁹ to ensure that the payments were for proper Town purposes, properly authorized and disbursed.
- We reviewed all bank transfers between Town bank accounts for one month during our audit period¹⁰ and 14 judgmentally selected bank account transfers and other reductions to cash recorded as journal entries to verify that the amounts recorded were for appropriate purposes and disbursed by the Supervisor.
- We reviewed 16 high risk non-payroll cash disbursements. We judgmentally selected our sample to include payments made to Town officials, checks signed by the Comptroller and payments to vendors which could represent purchases for personal use.
- We reviewed all 47 non-payroll check payments and all payroll disbursements from the November 2013 bank statements.¹¹ For payroll disbursements, we verified whether gross payroll agreed with the Board authorized pay rates and was disbursed by the Supervisor. For non-payroll disbursements, we examined vouchers, invoices, canceled checks, disbursement records and Board minutes to ensure that the disbursements were authorized, adequately supported, made for legitimate business purposes and paid subsequent to the Comptroller's authorization.
- We reviewed all December 2013 bank statements and bank reconciliations to determine whether the adjusted bank balances agreed with the cash balances in the Town's accounting records. We also reviewed all bank statements for the audit period to determine if withdrawals were for appropriate Town purposes.

⁸ These payments related to mileage reimbursements and for secretarial work for the planning and zoning boards.

⁹ These payments related to mileage reimbursements.

¹⁰ We used a random number generator to select November 2013.

¹¹ We reviewed all payments that cleared the bank on the November 2013 bank statements, the randomly selected month.

- We reviewed all medical insurance claims paid during our audit period. Using the Town's employee handbook and the highway department's collective bargaining agreement for authorized employee contribution rates for health, vision and dental insurance, we recalculated the employees' share of insurance premiums.
- We reviewed all cell phone claims paid during our audit period to determine the payments made for the prior Supervisor's cell phone coverage and interviewed officials and reviewed cash receipt journals and deposit slips to determine if personal cell phone charges were reimbursed to the Town.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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