



Town of Plymouth

Board Oversight

Report of Examination

Period Covered:

January 1, 2015 – March 31, 2016

2016M-190



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Town Officials and Corrective Action	2
BOARD OVERSIGHT	4
PPSI	4
Purchasing	5
Disbursements	5
Annual Audit	6
Recommendations	7
APPENDIX A Response From Town Officials	8
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2016

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 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 Plymouth, entitled Board Oversight. 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 Plymouth (Town) is located in Chenango County (County), covers 42 square miles and serves approximately 1,800 residents. The elected five-member Town Board (Board) is the legislative body responsible for the management and control of the Town's financial affairs. The Town Supervisor (Supervisor), who is a member of the Board, serves as the Town's chief executive officer and chief fiscal officer. The Supervisor is responsible for maintaining accurate accounting records and providing the Board with timely, accurate and useful financial information. The Supervisor appointed a bookkeeper to assist with the day-to-day accounting responsibilities.

The Town provides various services to its residents, including highway maintenance, snow removal and general government support. The Town's main financial activity is accounted for in two funds: general and highway. The Town's 2016 budgeted appropriations for these funds total \$1.24 million, funded primarily with real property taxes, fines and bail, services for other governments, State aid and mortgage tax.

Objective

The objective of our audit was to examine the Board's oversight of selected Town activities, including personal, private and sensitive information (PPSI); disbursements; and the Board's annual audit. Our audit addressed the following related question:

- Did the Town Board provide adequate oversight of PPSI, purchasing, disbursements and those responsible for receiving and disbursing money?

Scope and Methodology

We examined the Town's operations specific to PPSI, purchasing, disbursements and the annual audit for the period January 1, 2015 through March 31, 2016.

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 are included in Appendix B of this report. 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.

Comments of Town 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 agreed with our findings and indicated they planned to implement 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 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.

Board Oversight

The Board is responsible for overseeing the Town's fiscal operations and ensuring that adequate internal controls are in place to safeguard assets. The Board can fulfill this responsibility, in part, by establishing and enforcing policies and procedures required by law and sound business practice for financial operations. Sensitive and personal electronic data should be safeguarded so that such information will not be subject to loss, abuse or misuse. The Board should communicate the policies throughout the organization and ensure there are procedures in place to monitor compliance. Finally, the Board must annually audit the books and records of those officers and employees that receive or disburse Town funds.

PPSI

Local governments use and maintain data that contains PPSI. PPSI is any information where unauthorized access, disclosure, modification, destruction or disruption of access or use could severely impact the Town's critical functions, employees, customers or third parties, or the citizens of New York. For example, private information could include the following: Social Security number; driver's license number or nondriver ID; account number, credit card or debit card number and security code, access code or password that permits access to an individual's financial account. Policies regarding the protection of PPSI should be developed and enforced. Without these controls, the risk to data security is significant.

The Board did not ensure that the Town's data was protected against loss or that PPSI was secured. While the Town recently purchased a dedicated computer for the Town's financial recordkeeping, the Bookkeeper currently maintains the Town's records, which contain PPSI of the Town, on her personal desktop computer. This occurred because the Board did not adopt policies over computer data security and did not come to any agreement with the Bookkeeper on how to protect the Town's data, including PPSI, against loss, theft or abuse.

While Town officials are not aware of any compromised PPSI, the lack of policies and agreements that cover data protection and security, and not having Town records on Town computers, increases the risk that PPSI could become compromised. Further, the impact of unplanned disruptions, involving loss of data or other computer resources, could significantly curtail the Town's operations. With the purchase of the new Town computer, there is also an increased need for establishing computer policies to address appropriate user behavior and computer backups.

Purchasing

An effective procurement process helps the Town obtain the right quality and quantity of services, materials, supplies and equipment at the best price and in compliance with the Town's procurement policy and other applicable legal requirements. Seeking competition generally ensures that items are procured in a reasonable and cost-effective manner, including purchases that fall below the bidding thresholds and other contracts exempt from formal competitive bidding.

We found no evidence that Town officials obtained alternative quotes for purchases below competitive bidding thresholds. We tested 13 purchases totaling \$12,386, which included parts for snow plow trucks, computer, equipment and tires, and found that officials did not obtain additional quotes. The Highway Superintendent indicated that he did not seek alternative quotes prior to purchases. In addition, the Town has not obtained alternative proposals for insurance coverages for at least the past five years. The Town spent approximately \$62,000 for insurance coverage in 2015.

This occurred because the Board did not adopt a purchasing policy that required alternative proposals or quotations to be secured for goods and services and that required adequate documentation of actions taken in connection with each method of purchasing.

Without clear purchasing guidelines, there is no assurance of the prudent and economical use of public money in the best interests of the residents. We selected eight purchases totaling \$8,608 to determine if the Town could have obtained the items at a lower price. While we found no significant cost-saving opportunities,¹ the risk remains that purchases may not be at the lowest cost to residents.

Disbursements

The Board is responsible for the Town's financial well-being by ensuring that all money disbursed is for proper Town purposes. This responsibility includes designing internal controls to ensure that no one individual performs all of certain key functions in the disbursement process. If it is not possible to set up internal controls because of cost issues, the Supervisor and the Board should implement compensating controls over the disbursement process which include an independent review of bank statements, bank reconciliations and check images. The Supervisor is responsible for reviewing, signing and issuing payments for all items listed on the abstracts after the Board audits and approves them for payment.

¹ We compared the purchases to general internet searches, as well as State and three County contracts.

The Board did not ensure that all money disbursed was for proper Town purposes. The Bookkeeper performs incompatible duties as she has the ability to disburse funds without anyone else's knowledge. She creates the checks, records transactions and reconciles the bank accounts without oversight. No one reviews bank reconciliations or check images to ensure disbursements are for proper purposes and no one compares what was actually paid against Board-approved abstracts. This occurred because the Supervisor assigned these financial duties and did not provide compensating oversight of disbursements.

We selected 21 nonpayroll disbursements totaling \$18,778 to determine if they were properly approved and legitimate Town expenditures. Although our testing did not disclose any discrepancies, there is a risk that the Bookkeeper could write inappropriate checks without detection.

Annual Audit

The Board is required to annually audit, or cause to be audited, the books, records and documents of certain municipal officers and employees responsible for receiving and disbursing money. This periodic audit of the financial details of departmental operations should be thorough and the results documented in Board meeting minutes. When done properly, it can provide Board members with a better understanding of those operations, which is essential to effective oversight. An annual audit is especially important when there is a limited segregation of duties.

During our audit period, the Board performed an annual audit of the Town Justice. However, it did not audit the financial books and records of any other officers and employees who received or disbursed money on behalf of the Town. Specifically, the Board did not audit the Town Clerk/Tax Collector's or the Supervisor's records.

The Board did not perform the necessary audits because it was unaware of the requirement. As a result, there is an increased risk that the Board would fail to detect and correct errors, irregularities or fraudulent activity in a timely manner.

In April 2016, we provided Town officials training on fiscal oversight responsibilities, which included the deficiencies noted in this report. The Supervisor, Board, Clerk and Highway Superintendent attended this training. We commend officials for being receptive to the training provided and encourage them to contact us if they need help implementing corrective action.

Recommendations

The Board should:

1. Adopt policies and procedures for PPSI and purchasing.
2. Require the Bookkeeper to transfer Town records from her personal computer to the Town's computer.
3. Establish an internal control structure to include compensating controls to mitigate the risks associated with the disbursement of Town funds, including:
 - Providing an independent review of canceled check images to approved abstracts and
 - Performing an independent review of bank statements and reconciliations.
4. Perform an annual audit of the records of all individuals who receive money and disburse funds.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

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

**TOWN OF PLYMOUTH
COUNTY OF CHENANGO**

To:
Todd Eames
Office of State Comptroller
Albany, New York 12236

Dear Mr. Eames,

RE: Audit Report 2016M-190
Period Covered January 1, 2015 – March 31, 2016

This audit response is also serving as the Corrective Action Plan.

The Town of Plymouth Town Supervisor and Town Board agree to all observations found in the report. Please find the Corrective Action Plans below for each observation:

1. The Board should adopt policies and procedures for PPSI and Purchasing. The Town Supervisor along with the Plymouth Town Board will adopt policies as required for Purchasing and PPSI within 90 days.
2. The Board requires the Bookkeeper to transfer Town records from her personal computer to the Town's computer. This will be done - the book keeper will be expected to pick up the Towns computer or work in The Town Building when performing any Plymouth Town activities. We will not expect the book keeper to purchase a new computer since she just did 3 months ago for all of the towns that she works for. Plymouth data will be transferred to the Towns Computer. The Town will need to purchase [redacted] software to accommodate the bookkeeper.
3. The Board needs to establish an internal control structure to include compensating controls to mitigate the risks associated with the disbursement of Town funds, including:
 - a. Providing an independent review of canceled check images to approved abstracts. This will be down by the Plymouth Town Supervisor or the Deputy Town Board member if the Town Supervisor is not available..
 - b. Performing an independent review of bank statements and reconciliations. This is currently being done by the Town's book keeper but the Town Supervisor will ALSO perform this function as a "Check-By" person.
4. The Board needs to perform an annual audit of the records of all individuals who receive money and disburses funds. The Town Board did audit the Town Justice last August and is scheduled to audit the Town Justice records again on August 30, 2016. The initiation of annual audits for the Town Clerk and Town Supervisor will start by March 31, 2016.

Grace A. Nucero-Alger, Town Supervisor
3461 State Hwy 23
South Plymouth, NY 13344
Phone: (607) 336-2116
Fax: (607) 336-3047

8/19/16

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials to gain an understanding of the Town's computer policies and security of PPSI, and purchasing and disbursement processes and annual audit procedures.
- We randomly selected three abstracts and traced 100 percent of the approved disbursements to approved invoices to determine if all bills were audited.
- We randomly selected eight purchases to determine if the Town purchased the items at the lowest cost possible through internet searches as well as review of Chenango, Broome, and Madison County Contracts.
- We judgmentally selected five additional purchases greater than \$400 to determine if the Town used any verbal or written quotes.
- We judgmentally selected two professional services to determine if the Town used requests for proposals to seek competition.
- We randomly selected 21 canceled checks (six from the general fund bank account and 15 from the highway fund bank account) to determine if payments made were approved and for proper Town purposes.

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.

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