



Town of Avoca

Financial Management and Town Clerk Operations

Report of Examination

Period Covered:

January 1, 2016 – May 19, 2017

2017M-131



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2017

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 Avoca, entitled Financial Management and Town Clerk Operations. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Avoca (Town) is located in Steuben County. The Town Board (Board) is responsible for the general management and control of the Town's financial affairs. The Town Supervisor (Supervisor) is the chief executive and chief fiscal officer of the Town and is responsible for receiving, disbursing and maintaining custody of Town money, maintaining the accounting records and providing financial reports to the Board. The Supervisor employs a bookkeeper to assist with these duties. The bookkeeper also serves as the Town's budget officer. The Town's 2017 budgeted appropriations totaled approximately \$1.3 million, funded primarily with real property taxes, State aid, sales tax and justice court revenues. Town-wide (TW) funds encompass the entire Town, including the Village of Avoca (Village). Town-outside-village (TOV) funds encompass only the portion of the Town that lies outside of the Village.

The elected Town Clerk (Clerk) also serves as the Town's Tax Collector. As Clerk, she is responsible for collecting, recording and depositing fees for conservation, dog, games of chance and marriage licenses, refuse tickets, fees for certified copies, cemetery lot sales and building permit fees and remitting this money to the appropriate entities, including the Supervisor. The Clerk collected cash receipts of about \$22,600 during our scope period. As the Tax Collector, the Clerk is authorized and directed by the tax warrant to collect the taxes on the tax roll, impose penalties on late payments, and is responsible for accurately recording, depositing and remitting paid property taxes to the Supervisor and Steuben County in a timely manner. Tax receipts totaled about \$1.3 million in both 2016 and 2017.

Scope and Objectives

The objectives of our audit were to review the Board's financial management and evaluate the operations and financial practice of the Clerk's office for the period January 1, 2016 through May 19, 2017. We extended our scope back to January 1, 2014 to review budget and fund balance trends and back to January 2013 to review sales tax allocations. Our audit addressed the following related questions:

- Did the Board and Town officials adequately manage the Town's financial condition?
- Did the Clerk deposit, disburse and report all money collected in a timely and accurate manner?

Audit Results

Conservative budgeting practices have contributed to substantial fund balance levels and the Town has accumulated excessive fund balances in both the TW and TOV general and highway funds. Although the Board appropriated portions of the accumulated fund balance as a financing source in the following year's budget, because of operating surpluses and accounting errors, the Town has not

used appropriated fund balance as an actual financing source. In addition, the Board has not adopted a multiyear financial plan to aid in the appropriate use and reduction of the Town's excess fund balance.

The bookkeeper inappropriately allocated sales tax revenue and debt payments for building renovations were improperly accounted for, resulting in inaccurate accounting records which severely diminished the Board's ability to provide appropriate fiscal oversight. Further, these inappropriate activities allowed taxpayer inequities to occur. Lastly, the Board has not performed or secured an adequate annual audit of the books and records of Town officials and employees who received or disbursed money.

The Clerk's receipts and tax collections were not adequately safeguarded, increasing the risk of fraud and theft. The Clerk did not maintain a cash book to chronologically record all individual receipts on a daily basis and deposit all cash receipts intact¹ or in a timely manner. Additionally, the Clerk did not remit taxes timely. Furthermore, the Clerk did not conduct a monthly accountability of cash with the amount in the bank and related liabilities. The Board was unaware of these inappropriate practices because they did not conduct an annual audit of the records of the Clerk.

Comments of Local Officials

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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

¹ In the same amount and form (cash or check) in which they were received.

Introduction

Background

The Town of Avoca (Town) is located in Steuben County (County) and has a population of about 2,250. The Town provides a variety of services to its residents, including street maintenance and improvements, snow removal, street lighting, fire protection services, justice court services and general government support. The Town's 2017 budgeted appropriations totaled approximately \$1.3 million, funded primarily with real property taxes, State aid, sales tax and justice court revenues. Town-wide (TW) funds encompass the entire Town, including the Village of Avoca (Village). Town-outside-village (TOV) funds encompass only the portion of the Town that lies outside of the Village.

The Town is governed by an elected five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor is the chief executive and chief fiscal officer of the Town and is responsible for receiving, disbursing and maintaining custody of Town money, maintaining the accounting records and providing financial reports to the Board. The Supervisor employs a bookkeeper to assist with these duties. The bookkeeper also serves as the Town's budget officer.

The elected Town Clerk (Clerk), also serves as the Town's Tax Collector. As Clerk, she is responsible for collecting, recording and depositing fees for conservation, dog, games of chance and marriage licenses, refuse tickets, fees for certified copies, cemetery lot sales and building permit fees and remitting this money to the appropriate entities, including the Supervisor. The Clerk collected cash receipts of about \$22,600 during our scope period. As the Tax Collector, the Clerk is authorized and directed by the tax warrant to collect the taxes on the tax roll, impose penalties on late payments, and is responsible for accurately recording, depositing and remitting paid property taxes to the Supervisor and County in a timely manner. As the Tax Collector, the Clerk collected tax receipts totaling about \$1.3 million in both 2016 and 2017.

Objectives

The objectives of our audit were to review the Board's financial management and evaluate the operations and financial practice of the Clerk's office. Our audit addressed the following related questions:

- Did the Board and Town officials adequately manage the Town's financial condition?

- Did the Clerk deposit, disburse and report all money collected in a timely and accurate manner?

Scope and Methodology

We examined the Town’s fiscal operations for the period January 1, 2016 through May 19, 2017. We extended our scope back to January 1, 2014 to review budget and fund balance trends and back to January 2013 to review sales tax allocations.

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 C 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 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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town’s response letter.

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 Clerk’s office.

Financial Management

The Board is responsible for the Town's financial oversight. This responsibility requires the Board to adopt structurally balanced budgets for all operating funds that provide for sufficient revenues to finance recurring expenditures while providing desired services on a continuing basis. In addition, Town officials should develop detailed multiyear financial and capital plans to identify developing revenue and expenditure trends, address reserve funds and capital assets, set long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years and avoid large fluctuations in tax rates. Lastly, the Board must annually audit the books and records of those officers and employees that receive or disburse Town funds.

The Board could improve its management of the Town's financial condition. Conservative budgeting practices have contributed to substantial operating surpluses. Therefore, the Town has accumulated excessive fund balances in both the TW and TOV general and highway funds. Although the Board appropriated² portions of the accumulated fund balance as a financing source in the following year's budget, because of operating surpluses and accounting errors, the Town has not used appropriated fund balance as an actual financing source.

The bookkeeper, as Budget Officer, inappropriately allocated sales tax revenue, resulting in taxpayer inequities and inaccurate accounting records which severely diminished the Board's ability to provide appropriate fiscal oversight. In addition, the Board has not adopted a multiyear financial plan to aid in the appropriate use and reduction of the Town's excess fund balance. Further, the Board has not performed or secured an adequate annual audit of the books and records of Town officials and employees who received or disbursed money.

Budgeting and Fund Balance

In preparing the budget, it is important for the Board to develop realistic revenue and expenditure estimates, along with an estimate of available fund balance at fiscal year-end. Fund balance represents surplus funds that have accumulated from prior fiscal years. The Town may retain a reasonable level of unexpended surplus funds to provide cash flow and as a financial cushion in the event of unforeseen financial events.

² Town officials may designate a portion of fund balance to help finance the next year's budget (i.e., appropriated fund balance).

Town officials can also legally set aside fund balance to finance all or part of future capital outlays and other allowable purposes and may designate a portion of fund balance in each fund as a financing source for the next year’s budget or to be retained for future use. This is an acceptable and reasonable budget practice when the Town has accumulated an adequate level of unrestricted fund balance. Conversely, it is not a sound practice to routinely appropriate fund balance that will not actually be needed, due to budgetary surpluses built in to revenue and expenditure estimates. This practice misleads residents and further increases, instead of decreasing, fund balance, and causes excessive tax levies.

Although the Board’s adopted budget appropriated fund balance each year to finance appropriations, overly conservative revenue and expenditure estimates resulted in operating surpluses or smaller than planned deficits. As a result, the Town has accumulated excessive fund balances in both the TW and TOV general and highway funds.

Figure 1: TW and TOV Financial Activity^a

	TW General and Highway Funds			TOV General and Highway Funds		
	2014	2015 ^b	2016	2014	2015	2016
Beginning Fund Balance	\$677,035	\$751,095	\$670,329	\$76,630	\$101,598	\$145,951
Operating Surplus (Deficit) ^b	\$74,060	(\$80,766)	(\$34,969)	\$24,968	\$44,353	\$42,018
Ending Fund Balance	\$751,095	\$670,329	\$635,360	\$101,598	\$145,951	\$187,969
Less Appropriated Fund Balance	\$225,000	\$205,250	\$203,000	\$0	\$14,500	\$35,000
Unrestricted Ending Fund Balance	\$526,095	\$465,079	\$432,360	\$101,598	\$131,451	\$152,969
Ensuing Year’s Budgeted Appropriations	\$954,488	\$934,288	\$938,930	\$328,960	\$365,155	\$382,295
Unrestricted Fund Balance as a percentage of Ensuing Year’s Budgeted Appropriations	55%	50%	46%	31%	36%	40%

^a The TW general and highway funds and the TOV general and highway funds have the same tax bases, and can be considered on a combined basis to assess financial condition.

^b We restated the operating deficit to take out the purchasing of capital assets with BOND proceeds that should have been accounted for in a capital projects fund.

This occurred because the Board does not have a written fund balance policy that addresses reasonable levels of fund balance to be maintained, establishment of reserves or how to manage annual operating surpluses when they occur. The Board’s practice of appropriating fund balance totaling approximately \$410,000 that was not needed to finance operations was, in effect, an understatement of unrestricted fund balance.

Taxpayer Equity

The purpose for maintaining separate TW and TOV funds is to account for transactions which are required, by law, to be included in those

respective funds in order to achieve taxpayer equity. Accordingly, the Board and budget officer must budget and account for transactions in the correct fund, in accordance with generally accepted accounting principles and statutes requiring the segregation of TW and TOV resources. This ensures that all taxpayers are treated equitably, have the benefit of all resources due them and pay only those real property taxes required of them.

Sales tax revenues of almost \$160,000 were improperly allocated and debt payments for building renovations were not accounted for in the proper fund. Therefore, Town residents were not treated equitably. Furthermore, these actions have resulted in an inaccurate depiction of the actual financial condition of general and highway operating funds. As a result of these errors, TOV residents inappropriately subsidized TW operations.

Sales Tax – New York State Tax Law authorizes counties to voluntarily share sales and use tax revenues with certain local governments. When counties distribute sales and use tax revenues, the local governments must appropriately budget and account for those revenues. When a town and a village within the town both receive sales tax revenue from the county, the town must budget and record the sales tax revenue in the TOV funds, unless real property taxes in those funds have been reduced to zero. If any sales tax revenues remain after eliminating TOV property taxes, the Board may apply the remainder to reduce general TW taxes.

Both the Town and the Village receive sales and use tax distributions from the County, while the Town continues to raise real property taxes in the area outside the Village. As a result the Town has inappropriately allocated \$160,000 in sales tax revenues to the TW general fund between 2013 and 2016, with an additional \$10,000 being inappropriately allocated in the 2017 budget. The Town's method of allocating sales and use taxes was not in compliance with statute, inequities have occurred between the two tax bases with taxpayers in the TOV paying more in real property taxes than was required.

In effect, Town residents living in the Village have received the benefit of sales and use tax revenues twice (from the Village as well as the Town) and the taxpayers in the TOV have had to pay additional taxes. The benefit should have been received by only those taxpayers residing outside the Village because their Town property taxes had not been reduced to zero. As a result, the TW general fund and the TOV funds financial positions are misstated.

Building Renovation Debt Service – Generally, expenditures must be budgeted in the TW fund unless statute requires or permits them to be accounted for in the TOV fund. New York State Town Law (Town Law) requires the cost of maintaining a town hall building used for the offices of town officials to be raised on a town-wide basis. Therefore any debt payments resulting from debt issued for improvements should also be charged to the TW general fund. Further, revenues from the Village to pay their portion of the debt should be accounted for in the TW general fund and the annual budget should include this estimated revenue in the TW general fund. In the case of a municipal building, the whole area of the town is benefited and receives services from the building. Therefore, the entire town, not just the area outside of the village, is benefited and receives services from this building for Town purposes.

The Town and the Village both own and occupy the building the Town and Village offices are located in per a written purchase contract. The Town and the Village entered a second written agreement on July 9, 2015 for building renovations. The contract established that the Town would be responsible for 60 percent of the renovation costs and the Village would be responsible for 40 percent. This split was based on the prior practice of the Town and Village to split general building maintenance costs in this manner. However, the Town and Village do not have a formal written agreement documenting this arrangement for maintenance costs.

The written agreement for building renovations specified that the Town would pay for its portion of the renovation costs using TOV funds, which contradicts Town Law. As a result, \$30,950 has been inappropriately budgeted for in the TOV fund instead of the TW fund in 2017.

The combination of conservative budgeting practices and accounting errors has resulted in inaccurate budgets, accounting records and financial reports that misstate the true financial position of the Town. Thus the Board's ability to effectively manage Town operations and monitor its financial condition was limited.

In addition, by not using excess fund balance as a resource to fund operations and improperly allocating sales tax, Town officials have levied higher property taxes than necessary.

Figure 2 – Adjusted Unused Fund Balance

	TW General and Highway Funds			TOV General and Highway Funds		
	2014	2015	2016	2014	2015	2016
Unrestricted Ending Fund Balance	\$526,095	\$465,079	\$432,360	\$101,598	\$131,451	\$152,969
Adjustment for Sales Tax Corrections	(\$90,216) ^a	(\$21,999)	(\$47,750)	\$90,216	\$21,999	\$47,750
Add: Appropriated Fund Balance Not Used To Fund Ensuing Year's Budget	\$225,000	\$170,281	N/A	\$0	\$14,500	N/A
Total Recalculated Unrestricted Fund Balance	\$660,879	\$613,361	\$384,610	\$196,814	\$167,950	\$200,719
Ensuing Year's Budgeted Appropriations	\$954,488	\$934,288	\$938,930	\$328,960	\$365,155	\$382,295
Unrestricted Funds as a percentage of Ensuing Year's Budgeted Appropriations	69%	66%	41%	58%	46%	53%

^a 2014 amount includes sales taxes inappropriately allocated from both 2013 and 2014.

At the end of 2016, the TW and TOV unrestricted fund balances were approximately 50 percent of the ensuing year's budget appropriations. Since the Board-adopted 2017 budget continued the same conservative budgeting practices, fund balances will likely continue to grow.

The Board and Town officials failed to comply with statutory requirements when allocating sales tax and making debt payments for the Town hall's building renovations, resulting in the TW and TOV financial condition being misstated. Therefore, the Board's ability to effectively monitor the Town's current financial position and make sound financial decisions was compromised.

As a result of both improperly allocated sales tax revenues and recorded capital expenditures, Town residents were not treated equitably. Furthermore, these actions have caused an inaccurate depiction of the actual financial condition of certain Town operating funds.

Multiyear Financial Planning

Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Such plans also enable Town officials to identify developing revenue and expenditure trends, set long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years and avoid large fluctuations in tax rates.

Multiyear plans also allow Town officials to assess the effect and merits of alternative approaches to address financial issues, such as using fund balance to finance operations and accumulating money in reserve funds. Long-term financial plans work in conjunction

with Board-adopted policies and procedures to provide necessary guidance to employees on the financial priorities and goals set by the Board. The plan also will be a useful tool in informing the public of the Board's intentions and reasoning for the choices it made.

The Board has not developed a written multiyear financial plan. The Board does have an equipment replacement schedule, but this schedule does not include estimated replacement costs and funding sources. For example, since September 2014, the Town has financed three pieces of highway equipment by issuing debt totaling \$372,000, which will cost the Town \$12,900 in associated interest through 2017. Proper planning could have highlighted the option to substitute fund balance as a financing source for debt and avoid the interest cost.

Annual Audit

Town Law requires the Board to conduct an annual audit, or secure the services of a certified public accountant to perform an annual audit, of the books and records of any Town officer or employee who received or disbursed any money in the previous year. An annual audit helps the Board fulfill its fiscal oversight responsibilities, provides assurance that public money is handled properly and assesses the reliability of the Town's books, records and supporting documents on which it relies in making management decisions. Audit results can also help the Board evaluate fiscal practices and monitor the performance of the Supervisor and other officials who are entrusted with recordkeeping and other financial responsibilities. Monitoring the Town's financial activities more can help reduce the risk that errors or irregularities could occur and go undetected.

The Board has not performed an annual audit of the books and records of any Town official or employee who received or disbursed cash. The Board hired a bookkeeping firm to perform a review of the Clerk's 2014 records and the Justice Court's 2014 and 2015 records. However, the bookkeeping firm was not qualified to perform the annual audit in accordance with law and did not produce a report that made the Board aware of the findings included in this report. As a result, the Board's ability to monitor the Town's financial operations was severely diminished and errors or irregularities could have occurred and remained undetected and uncorrected.

Recommendations

The Board should:

1. Adopt a fund balance policy and procedures to govern budgeting practices and the reasonable level of fund balance to be maintained in each fund to meet the Town's needs.

2. Adopt budgets with realistic estimates of revenues, expenditures and the amount of fund balance to be used to fund operations.
3. Ensure that accounting records are corrected for accounting errors, and proper accounting practices are used going forward.
4. Develop a comprehensive multiyear financial plan to establish long-term objectives for funding long-term operating and capital needs and eliminate the excess accumulated fund balances. The plan should be monitored and updated on an ongoing basis.
5. Properly allocate sales tax revenue and town hall maintenance costs in accordance with statutory requirements and develop a plan to repay the TOV funds for amounts improperly credited to the TW fund and charged to the TOV fund.
6. Formalize the allocation for Town and Village shared maintenance expenses with a written contract.
7. Annually audit or cause the audit of the books and records of all Town officers and employees who receive or disburse funds on behalf of the Town within 20 days of the close of the fiscal year.

Town Clerk Operations

The Clerk, who also serves as the Town's tax collector, is responsible for receiving, recording, depositing, reporting and remitting all money collected for fees and taxes in an accurate and timely manner. The Clerk is minimally assisted by the Deputy-Clerk when she is unavailable to work during her posted office hours. The Clerk has three separate bank accounts: one for Clerk fees, one for conservation fees and the other for tax collections. The Board's oversight responsibility includes performing annual audits of the Clerk's books and records.

Cash receipts and tax collections were not adequately safeguarded. The Clerk did not maintain a cash book to chronologically record all individual receipts on a daily basis and deposit all cash receipts intact³ or in a timely manner. Furthermore, the Clerk did not conduct a monthly accountability of cash with the amount in the bank and related liabilities. The Board was unaware of these inappropriate practices because they did not complete an annual audit of the Clerk's records (See Annual Audit). Without adequately safeguarding cash receipts, the risk of fraud is increased.

Clerk Fees

The Clerk collects a variety of fees, such as conservation, dog, games of chance and marriage licenses; certified copies; building permits; refuse tickets; and cemetery lot sales. The Clerk is required to issue duplicate receipts⁴ to payees, record the form of payment (i.e., cash or check) for every transaction where no other evidence of receipt is available, and deposit all money collected intact so that specific cash receipts can be identified through the accounting records to the bank statements. The Clerk uses a town clerk software program to keep an electronic record of these transactions. Town Law requires the Clerk to enter receipts daily into a book of record and deposit all Clerk money collected within three business days after the total exceeds \$250. Good business practices dictate that all receipts which do not exceed \$250 be deposited on a weekly basis to reduce the risk of loss.

Recording Cash Receipts – The Clerk did not maintain a daily cash book, as required, to chronologically identify individual receipts. The Clerk issued a duplicate receipt for all transactions when no other evidence of receipt was available. Although each transaction was entered into the software and issued a unique transaction number in sequential order, the dates for these transaction numbers were not in chronological order when viewed in sequence. The Clerk explained

³ In the same amount and form (cash or check) in which they were received

⁴ One copy was given to the person remitting payment and the other was retained by the Town.

that she occasionally set aside refuse ticket receipts when busy and then entered them at one time within a couple of days. In addition, the Clerk stated that she will sometimes enter other receipts on a later day if she was busy the day of collection. Further, on occasion the bookkeeper collected clerk fees and issued manual receipts on behalf of the Clerk. These receipts also were not entered into the program until custody was transferred to the Clerk. When receipts are not entered timely, it is difficult to safeguard and account for them accurately.

Deposits – The Clerk did not deposit cash receipts intact and in a timely manner. Our review of money received in January 2017 found that receipts were not deposited intact because the Clerk regularly used cash from the collected fees to replenish her petty cash. The Clerk stated that this practice was how she was trained. In addition, the money was not deposited timely because the Clerk did not record fees immediately upon receipt. Therefore, money sat in a bank bag until she could record the transactions. Frequently, the Town Clerk deposited only portions of the collected fees she had on hand at that time. As a result, three of the five deposits for January receipts were not made within three days of the \$250 threshold. Therefore, these funds were deposited between four and 22 days late.

Tax Collections

As the Tax Collector, the Clerk is authorized and directed by the tax warrant to collect the taxes on the tax roll, impose penalties on late payments and remit paid taxes to the Supervisor and County in a timely manner. The Clerk collects real property taxes from January 1st through March 31st of each year. She is responsible for maintaining accurate and complete records of every tax payment received, including interest and penalties. The Clerk should document all payments received and maintain a detailed record of each transaction on a daily basis. The Clerk should record tax payments separate from interest and penalties and maintain envelopes to document the post mark date used for determining the timeliness of payments and whether penalties and late fees should be assessed, and daily summarize all tax payments received. Upon deposit, the Clerk must ensure that daily cash receipts correspond to the total amount deposited. Furthermore, the Clerk is required by Town Law to deposit all money collected within 24 hours of receipt, remit all deposits to the Supervisor at least once each week until the Town's portion of the tax levy is satisfied, and remit all residual collections to the County Treasurer by the 15th of each month following receipt.

The Clerk did not immediately record payments in the tax collection software when they were received, but instead periodically posted payments in batches adjusting the receipt date back to approximately when the majority of the payments in that batch were received or post

marked. Further, the Clerk did not maintain envelopes to document the post mark date for tax collections received through the mail. We reviewed 20 deposits consisting of 310 receipts that paid 388 tax bills totaling \$447,498 to determine if tax collections were properly recorded and deposited intact and timely. We found 269 of the 310 receipts totaling \$310,325 were not deposited timely and ranged between one and 16 days late.

In addition, the Clerk did not remit taxes to the Supervisor each week until the Town's portion of the tax levy was satisfied. Instead, she remitted tax collections to the Supervisor via one check at the end of January and February. Fortunately, the Town had sufficient fund balance to finance operations until the Supervisor received the tax collections, but this may not be the case in the future. The Clerk stated that she was unaware of the deposit and remittance requirements.

The lack of supporting documentation, such as postmarked envelopes, combined with the untimely depositing and remittance of tax collections, greatly increases the risk that tax collections could be used for unauthorized purposes and that errors and irregularities could occur and not be detected or corrected in a timely manner. We were able to account for all tax payments received and recorded. However, potentially misappropriated interest and penalties could have gone undetected.

Monthly Accountabilities

The Clerk should prepare monthly bank reconciliations and compare cash, both on hand and on deposit in the bank accounts, to a detailed list of liabilities, including amounts due to the Town and various State agencies. This comparison, referred to as a monthly accountability, helps to ensure that all money is identified and accounted for properly. Furthermore, the analysis can assist the Clerk in preparing monthly reports and remittances.

The Clerk's failure to timely record and deposit collections impeded her ability to perform accountability analyses of the Clerk's receipts and tax collections in her custody. Although the Clerk prepared a monthly bank reconciliation on the back of the bank statement to ensure the bank balance reconciled to her manual check register, the reconciliation lacked individual check and deposit in transit detail and did not compare her cash assets to liabilities.

We performed a cash count and accountability analysis in February 2017 and identified minor differences between her cash assets and liabilities which we brought to her attention.

Although we were able to reasonably account for all recorded Clerk's collections, when there is a lack of a monthly accountability, there

is an increased risk of errors and irregularities going undetected and corrected.

Recommendations

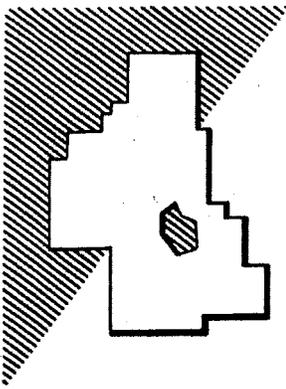
The Clerk should:

8. Maintain a daily cash book and chronologically identify individual receipts when this information is not documented by computer.
9. Not allow the bookkeeper to collect receipts on her behalf.
10. Cease the practice of using cash from her Clerk's receipts to replenish her petty cash.
11. Deposit all receipts intact and in a timely manner per statutory requirements.
12. Maintain postmarked envelopes for tax collections received via mail.
13. Ensure tax collections are remitted to the Supervisor in accordance with statute.
14. Provide individual outstanding check and deposit in transit detail on her bank reconciliations to aid in the performance of a proper review.
15. Perform monthly accountabilities to ensure that known liabilities agree with available cash.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF AVOCA

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3 CHASE STREET
AVOCA, NEW YORK 14809

Town of Avoca
Financial Management and Town Clerk Operations
2017M-131

For each recommendation included in the audit report, the following is a corrective action(s) taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations.

Financial Management Section:

Audit Recommendation:

1. Adopt a fund balance policy and procedures to govern budgeting practices and the reasonable level of fund balance to be maintained in each fund to meet the Town's needs.

Implementation Plan Action:

- The Town Bookkeeper/Budget Officer and Town Supervisor created the following policies and they were adopted by the Town Council on October 18, 2017.
 - i. Fund Balance Policy
 - ii. Reserve Fund Policy
 - iii. Budget Policy

Audit Recommendation:

2. Adopt budgets with realistic estimates of revenues, expenditures and the amount of fund balance to be used to fund operations.

Implementation Plan Action:

- The Town Council feels that realistic numbers for revenues and expenditures had been being used. The Budget Officer had created spreadsheets showing historical data and used a conservative approach to revenues. The Town Council Members are given 50 plus pages of budget worksheets showing a breakdown for each department. These pages were analyzed during budget workshops and the budget was adjusted where necessary. The goal each year has been to stay under the tax cap and keep the tax rate at a reasonable level to maintain all necessary services. The tax rate has gone from \$7.07 in 2015, \$7.13 in 2016 and \$6.99 in 2017. The town has remained under the tax cap each year and has not adopted a Local law allowing the Town to go over the cap.

See
Note 1
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- The Town Council approved funds to go into an equipment fund and a building fund, but did not have a formal reserve policy. This created a situation where it appears the Town had excess funds which could have been used to lower taxes, but in fact this money was set aside to purchase equipment outright or to place a substantial down payment on a larger piece of equipment which in turn makes the BAN payment lower and less interest was paid. These practices were disclosed to the public within the budget and at the budget public hearings.
- The Town has purchased the following equipment over the last 3 years without having to get a BAN (loan) and pay out unnecessary interest.
 - i. 2010 JD 6330 Tractor for \$67,750.00
 - ii. 2016 Dodge Ram 5500 with plow equipment for \$63,270.00
 - iii. 2016 Chevy Pick Up with plow equipment for 34,832.50
 - iv. 2017 JD Utility Tractor for \$43,637.61
- The Town also placed down payments on equipment to lesson the amount of the BAN (loan) amount, thus saving the taxpayers interest.
 - i. \$50,000.00 down payment for the 2016 Freightliner with plow and dump. This saved the taxpayers \$1,175.00 in interest the first year alone.
 - ii. \$50,000.00 down payment for the 2016 JD Grader. This saved the taxpayers \$1,220.00 in interest the first year alone.
- The Town Bookkeeper/Budget Officer and the Town Supervisor created the following policies and they were adopted on October 18, 2017.
 - i. Fund Balance Policy
 - ii. Reserve Policy
 - iii. Budget Policy

Audit Recommendations:

3. Ensure that accounting records are corrected for accounting errors, and proper accounting practices are used going forward.

Implementation Plan Action:

- The Bookkeeper/Budget Officer has been and will continue to take webinars and seminars to update her training in all areas.
- The Bookkeeper/Budget Officer has been and will continue to use the help line at the Comptroller's Office for any questions concerning the day to day accounting operations and the annual report.

Audit Recommendations:

4. Develop a comprehensive multiyear financial plan to establish long term objectives for funding long term operating and capital needs and eliminate the excess accumulated fund balances. The plan should be monitored and updated on an ongoing basis.

Implementation Plan Action:

- The Bookkeeper/Budget Officer and the Town Supervisor have created a Multiyear Financial Plan and it has been presented and adopted by the Town Council on November 15, 2017. This is in addition to the Budget

Policy, Fund Balance Policy, and Reserve Policy which was adopted on October 18, 2017.

Audit Recommendation:

5. Properly allocate sales tax revenue and town hall maintenance costs in accordance with statutory requirements and develop a plan to repay the TOV funds for amounts improperly credited to the TW fund and charged to the TOV fund.

Implementation Plan Action:

- The sales tax amounts in question were placed in the wrong accounts after the total amount budgeted was collected. This was a misunderstanding by the bookkeeper. She was taught that once the budgeted amount was collected the excess could be used in any fund.
- The amount of \$164,341.00 which was deposited in the Town Wide General A Fund was an accumulation from the years 2014, 2015, and 2016. The Town Council approved the transfer on November 15, 2017 of these funds as follows:
 - i. \$88,067.19 from General Fund A to General Fund B
 - ii. \$76,273.81 from General Fund A to Highway Fund DB
- The town hall maintenance costs were set up in 2015 and an agreement which was developed by the Attorneys for the Village and Town was signed. The cost of the building renovations and the statutory installment loan which was obtained by the Town to pay for the renovations was put out to a public referendum in 2015. The cost was divided 60% Town and 40% Village. The agreement stated this cost would be placed in General Fund B so the Village residents would not be charged tax twice for the same expense. The Bookkeeper contacted the Comptrollers Office when processing the 2016 Annual Report to inquire as to how the statutory installment loan was to be placed on the report and was given assistance with the account numbers.
- The Auditors and Comptrollers Office have stated the statutory installment loan payment must come out of General Fund A. To satisfy this requirement the Town and Village have signed an updated agreement which takes into consideration the tax already collected by Village residents before a bill is sent to the Village for the annual payment. The statutory installment loan payment has been placed in General Fund A beginning with the 2018 Budget.

Audit Recommendation:

6. Formalize the allocation for Town and Village shared maintenance expenses with a written contract.

Implementation Plan Action:

- The Attorneys for the Village and Town have developed an updated agreement concerning Shared Expenses for Maintenance and Operation of Town and Village of Avoca Offices at 3 Chase Street in Avoca, NY
- This agreement was approved by the Village Board of Trustees on November 9, 2017 and by the Town Council on November 15, 2017.

Audit Recommendation:

7. Annually audit or cause the audit of the books and records of all Town Officers and employees who receive or disburse funds on behalf of the Town within 20 days of the close of the fiscal year.

Implementation Plan Action:

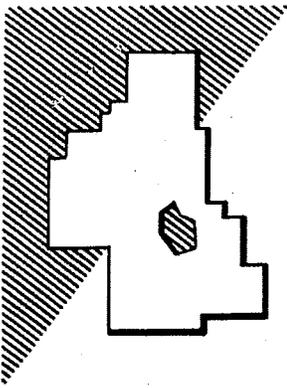
- The Town Council will appoint two Board Members annually to perform the audit of the books and records of the court, the town clerk, and the bookkeeper/supervisors office within 20 days of the beginning of the fiscal year.
- The Town Council will appoint two Board Members to perform spot checks on petty cash for the court and town clerks offices at least 4 times per year.
- The Bookkeeper and Town Supervisor have developed a Cash Receipt and Disbursement Policy. This policy was adopted by the Town Council on October 18, 2017.

See
Note 3
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Signed:

Date: 11-15-17

Kenneth Parsels
Town Supervisor



TOWN OF AVOCA

PO BOX 468
3 CHASE STREET
AVOCA, NEW YORK 14809

Town Clerk Operations
Town of Avoca
Financial Management and
Town Clerk operations

2017M-131

Audit Response Letter,

As Avoca Town Clerk, I am responding to the audit conducted on the Town of Avoca with regards to the town Clerk's operations. I would like to clarify some issues that are printed in the report so the public better understands why the audit report shows I need to work on these areas better.

Landfill tickets are sometimes left for a couple days before they are entered into the computer. During tax time, when the office is busy handling taxes and it is not feasible to get them entered into the computer in a timely manner every day. There are two records showing peoples name and address on the sheet they sign and also the receipt from the ticket issued to that person and all money is accounted for. On occasion, the Town bookkeeper will collect money for the Town Clerk, issue a manual receipt and then is not entered into the computer until transferred to the clerk. Our town is small and there are times when the clerk is out of the office and the bookkeeper is here, so she collects money from someone rather than have them come back another time. Receipts are given and then the transaction is put on the computer. We try to help our community the best we can that is why we are here. Receipts are given to everyone in one form or another. With property taxes, dog licenses, hunting licenses, marriage licenses, landfill tickets the receipts are the papers they receive back. Games of chance, death certificates, cemetery lots and building permits get a receipt.

Deposits: It is stated that I regularly use cash from collected fees to replenish my petty cash fund. This is not done on a regular basis, as it only happens when I had to use the petty cash to purchase something which is very infrequent. I was trained that if I had to use petty cash to purchase, for example stamps, I could not cash the check that was issued from the board to replenish the petty cash fund but it had to go directly into the town clerk's account.

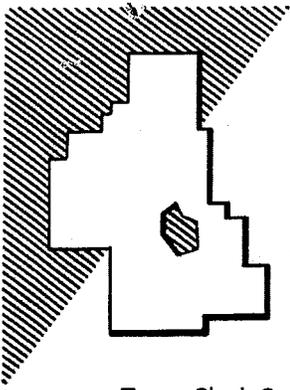
See
Note 4
Page 26

Tax collection: It is stated that I periodically posted payments in batches adjusting the receipt date back to approximately when the majority of the payments in that batch were received or post marked. I do date back because in January when the office is exceptionally busy with taxes I pick up the mail each day or two days and group them together as to the date when they are picked up. Then they are entered into the computer within a few days with that date, when the office is not busy with people paying in person. This is a process that takes time every day. The utility companies pay directly to the County in February without a penalty. When the county sends them to my office, it is about two weeks or more into the month of February. Those taxes have got to be entered into my system as January 31, so there will be no penalty charged and it will not show that I am short money for not collecting the penalty. I have an interest account with the bank for the tax collection account so I try to keep as much money in that account as possible so I do wait until the end of January to pay the first installment to the Supervisor. That is extra money collected for the town. When I do give the Supervisor a payment it is a substantial amount from the warrant.

See
Note 5
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See
Note 6
Page 26

Monthly accountabilities: When my petty cash was counted there was over \$250.00 I always have more money than the \$250.00 required. I do a monthly report to the Town board and the various agencies that I have collected for that month. I also count my petty cash that is on hand every month to make sure I have the correct amount of money of \$250.00.



TOWN OF AVOCA

PO BOX 468
3 CHASE STREET
AVOCA, NEW YORK 14809

Town Clerk Operations
Town of Avoca
Financial Management and
Town Clerk Operations
2017M-131

Recommendations from OSC,

1. OSC recommends the Town Clerk keep a daily cash book and chronologically identify individual receipts when this information is not documented by computer.

The clerk started doing a daily cash receipts book when the auditors talked to the clerk about their findings.

2. OSC recommends not allowing the bookkeeper to collect receipts on her behalf.

That is going to be a hard one to do because we are such a small municipality we work together to help each other out. We are both bonded, she falls under the blanket bond for the town for collecting money. We do not want to put the extra burden on the Tax payers to have to pay another person when we have had no problems for all these years collecting money for each other this is something that the clerk will work on. Everyone that comes into our offices gets the respect and attention that all our residents deserve.

See
Note 7
Page 26

3. OSC recommends to cease the practice of using cash from her Clerk's receipts to replenish her petty cash.

The Town Clerk now knows that is not the practice that should be used, she will no longer use the cash from the receipts. She will cash the check and return that money to petty cash fund.

4. OSC recommends to deposit all receipts intact and in a timely manner per statutory requirements

The Town Clerk has already begun depositing on a timelier manner.

5. OSC recommends to maintain postmarked envelopes for tax collections received via mail.

The Town Clerk will start saving envelopes for post mark dates starting this tax collection season in January 2018.

6. OSC recommends ensure tax collections are remitted to the Supervisor in accordance with statute.

The Town Clerk will start this tax season January 2018 remitting weekly to the Supervisor monies collected.

7. OSC recommends to provide individual outstanding check and deposit in transit detail on her bank reconciliations to aid in the performance of a proper review.

The town board has approved a cash receipts and cash disbursements policy effective October 18, 2017 also the clerk will make available to the board her daily town clerk and decals receipts books effective November 15, 2017.

8. OSC recommends to perform monthly accountabilities to ensure that known liabilities agree with available cash.

The town clerk will have a minimum of by weekly reconciliation for the town board to show that her liabilities agree with her cash on hand.

TOWN SUPERVISOR

11-15-17
DATE

APPENDIX B

OSC COMMENTS TO LOCAL OFFICIALS' RESPONSES

Note 1

Overly conservative revenue and expenditure estimates in the Board's adopted budgets resulted in operating surpluses or smaller than planned deficits, which increased fund balances in both the TW and TOV general and highway funds to excessive amounts.

Note 2

Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can also provide a degree of financial stability by reducing reliance on indebtedness to finance capital projects and acquisitions. Without the formal establishment of reserve funds, moneys previously "set aside" could be used for other purposes.

Note 3

Town Law requires the entire Board conduct the annual audit.

Note 4

During 2016, the Clerk replenished petty cash five times from collected receipts and never from cashing the check at the bank.

Note 5

Cash receipts must be recorded upon receipt and deposited in a timely manner to prevent loss or theft.

Note 6

Town law requires that the Clerk remit all tax receipts to the Supervisor at least once a week. Doing so will allow more interest to accrue because of the larger bank balances in the general and highway funds' bank accounts.

Note 7

Allowing others to collect funds on behalf of the Clerk reduces accountability should funds become missing. Providing another avenue for payment, such as a lock box or using a deputy would preserve accountability and still meet the needs of the public.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objectives, we interviewed appropriate Town officials and employees, tested selected records and examined pertinent documents for the Clerk for the period January 1, 2016 through May 19, 2017. We expanded our scope back to January 1, 2014 to review budget and fund balance trends and back to January 2013 to review sales tax allocations. Our audit included the following steps:

- We interviewed appropriate Town officials to gain an understanding of financial operations including the budget process and the Clerk's financial processes.
- We analyzed fund balance and compared budgeted revenues and expenditures to actual operating results to determine the impact of the deficit or surplus on fund balance for fiscal years 2014 through 2016.
- We reviewed the Town's adopted budgets for 2014 through 2017 to determine the amount of fund balance appropriated and whether they were reasonable and structurally balanced.
- We reviewed individual line item budget-to-actual results for 2014 through 2016 to determine if variances were significant.
- We reviewed Board minutes and intermunicipal agreements with the Village for fiscal years 2014 through 2017.
- We reviewed 2013 through 2017 sales tax revenue, transfers from TOV to TW funds and the tax levy of TOV funds to determine if sales tax allocation was appropriate.
- We performed a cash count and accountability analysis of the Clerk's funds on February 13, 2017.
- We reviewed the Clerk's accounting records and bank statements for the period January 1, 2016 through May 19, 2017 to determine if the Clerk accurately recorded, deposited, disbursed and reported all money collected in an appropriate and timely manner.
- We obtained compositions for judgmentally selected deposits made to the Clerk's bank accounts during our audit period to determine if deposits were made intact and in a timely manner.

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 objectives.

APPENDIX D

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