



Town of New Lisbon

Financial Oversight

Report of Examination

Period Covered:

January 1, 2011 — September 27, 2012

2013M-12



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2013

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 New Lisbon, entitled Financial 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 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 New Lisbon (Town) is located in Otsego County and has a population of approximately 1,100 residents. The Town is governed by an elected five-member Town Board (Board), which includes the Town Supervisor (Supervisor). The Board is responsible for the general oversight and control of the Town's operations and finances. The Town provides various services to its residents, including street maintenance, snow removal, fire protection, street lighting, and general government support. The adopted budget for 2011 was approximately \$860,000 and was funded primarily with real property taxes, sales taxes and State aid.

The Supervisor, as the chief fiscal officer, is responsible for maintaining accounting records and providing monthly reports to the Board. The Supervisor has a bookkeeper to assist him with these duties. The Town also has an elected Town Clerk (Clerk) and Justice. The Clerk has also been appointed the Tax Collector. The Clerk is responsible for maintaining records and licenses issued by the Town and collecting real property taxes. The Justice is responsible for adjudicating and setting fines, as applicable. A court clerk has been appointed to assist him with recordkeeping duties.

Objective

The objective of our audit was to evaluate the Board's oversight of the Town's financial operations. Our audit addressed the following related question:

- Did the Board properly oversee the Town's financial operations?

Scope and Methodology

We reviewed the Town's accounting records and reports and Board oversight for the period January 1, 2011, through September 27, 2012.

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.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue 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 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 Town to make this plan available for public review in the Clerk's office.

Financial Oversight

The Board is responsible for the general management of Town affairs, and therefore must provide adequate oversight. The Board's oversight should include ensuring that disbursements are based on Board approved claims, ensuring that financial duties are adequately segregated or mitigating controls are in place, and conducting an annual audit of the records of officials and employees who receive or disburse cash.

The Board did not meet the fundamental expectations of their financial oversight responsibilities. The Supervisor paid claims without Board audit. Moreover, key financial duties were performed by the Supervisor's bookkeeper and the Justice's clerk without sufficient oversight from the Supervisor and Justice, respectively. The Clerk also performed all aspects of collecting and recording taxes and fees paid to her office. All of these duties were performed during 2011 without the Board performing their required annual audit. As a result, there is an increased risk that error and irregularities could occur that would not be detected and corrected.

Claims Approval – The Board is responsible for auditing and authorizing all claims presented for payment. The Board may, by resolution, authorize the payment in advance of audit of certain claims.¹ All such claims shall be presented at the next regular meeting for audit.

While the Board conducted a thorough and deliberate audit of the highway fund vouchers prior to the Supervisor paying them, it only approved a list of the general fund vouchers without auditing all of the actual claims. The Supervisor informed us that the Board felt the review and approval of the list was sufficient. Additionally, Board members occasionally question large dollar expenditures.

Moreover, the Board, by resolution, authorized the Supervisor to pay claims for “utility bills, insurance premiums, justice court fees to the State Comptroller, cable bills, credit card bills, payroll taxes and postage without prior Board approval.” However, insurance premiums, cable bills, and credit card bills cannot be authorized for payment prior to audit and approval. We found that the Supervisor disbursed 153 checks, totaling \$240,000, prior to Board approval. Of these checks, 57 disbursements totaling \$121,000 are not allowed to be paid prior to Board approval. These included payments for medical

¹ These exceptions include claims for public utility services, postage, freight and express charges.

and disability insurance (\$85,000), internet services (\$2,300), pest control (\$200), general insurance (\$32,000), and other miscellaneous payments (\$1,500).

Although we did not identify any expenditures for non-town purposes, based on the records we reviewed, the lack of a thorough and deliberate audit of general fund claims by the Board increases the risk that Town moneys could be used for inappropriate purposes.

Segregation of Duties – An effective system of oversight provides for the adequate segregation of duties so that no one person controls all phases of a transaction, and that the work of one employee is verified by another employee in the course of their duties. If it is not feasible to segregate duties, the Board must implement compensating controls.

- The bookkeeper’s duties were not properly segregated. The bookkeeper records receipts and disbursements, prepares and makes deposits, prints checks, performs all payroll processing functions, and prepares bank reconciliations.
- The court clerk’s duties were not properly segregated. The court clerk receives money, prepares deposits, records receipts and disbursements in the court software, prepares and submits monthly reports, and performs informal bank reconciliations.

We performed various tests of records and transactions² and found no irregularities. However, concentrating key duties with one individual (i.e., accounting records maintenance, cash custody and bank reconciliations), with little or no oversight, weakens internal controls and significantly increases the risk that errors or irregularities could occur and remain undetected and uncorrected.

Annual Audit – The Board should audit the financial records of the various town departments, at least annually. While the minutes of the Board meetings did document an audit of the Supervisor’s and Justice’s records for 2010, the Supervisor believed the risk assessment conducted by our office that led to this audit would supplant the Board’s annual audit requirement for 2011. A Board member told us he did not audit the Justice’s records as there was recent turnover in the court clerk.

The Town Clerk also performed all aspects of collecting and recording taxes and fees paid to her office. All of these duties were performed during 2011 without the Board performing their required annual audit. The audit of the Clerk’s 2010 records was assigned to a

² See Appendix C

Board member in 2011; however, the Board member told us she did not recall doing such an audit. Nothing was recorded in the minutes regarding the results of such an audit.

While our review of records and transactions³ identified only minor errors and recording differences, Town officials could improve internal controls significantly with additional oversight of the financial operations. For example, with a proper Board audit, officials could determine that records are accurate and posted up-to-date and that bank accounts are properly reconciled and agree to the records.

Recommendations

1. The Board should audit all claims prior to their payment, unless otherwise allowed by law.
2. The Justice and Supervisor should provide more oversight of the financial activities of their offices.
3. The Board should conduct an annual audit of the financial records maintained by the Supervisor, Justice, and Clerk.

³ See Appendix C

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

**TOWN OF NEW LISBON
908 COUNTY HIGHWAY 16
GARRATTSVILLE, NY 13342**

March 28, 2013

[REDACTED]
Division of Local and School Accountability
State Office Building
44 Hawley St
Binghamton, NY 1390 - 4417

Dear [REDACTED]

This letter will include both our response and our Corrective Action Plan in connection with the recently completed audit of our town.

We wish to express our appreciation for the personnel who performed the audit. They were at all times professional, courteous, and helpful.

We acknowledge the Office of the State Comptroller's responsibility for oversight of the town's finances. Your office conducted a brief audit in 2011 during which we were subsequently told an item of concern was detected. Had we known of the concern at the time we could have corrected it. Instead we had to wait for the more detailed audit in 2012.

See
Note 1
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Though we were pleased the examiners verified no funds were incorrectly spent and procedures were followed in the purchasing and payments, including payroll, we understand that there was concern for more oversight of the processes. In correcting the oversight items, we have initiated the following activities.

Before each Town Board meeting, the claims to be paid are available for inspection and signed by the board members.

The Supervisor opens all mail and endorses all checks preparatory to filling out the deposit slips, which are completed for the bank. Because of the distance to the bank, either the bookkeeper or the Supervisor then completes the transaction. The Supervisor now examines the deposit book to ascertain the action has been completed. He also now reviews the reconciliation of the bank statements each month.

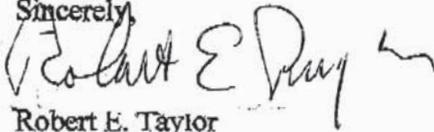
The annual audit of the books of the Supervisor, Clerk, and Judge for 2012 has been completed by individual Board members and filed with the Town Clerk.

We now recognize that only certain bills may be identified at the organization meeting for payment prior to audit and will conform to that list of approved items.

In keeping with the findings of the audit the Supervisor and the Judge have initiated a more thorough system of oversight of the operations in their offices.

We thank you again for your assistance and only wish that previous audits had identified the items that you did so that they could have been corrected.

Sincerely,

A handwritten signature in cursive script that reads "Robert E. Taylor". The signature is written in dark ink and includes a small flourish at the end.

Robert E. Taylor
Supervisor

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

Our Office performed a risk assessment in 2011, which lead to the audit being performed in 2012. Additionally, certain Town officials were informed of our findings throughout the audit process.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the Board's oversight of the Town's financial operations for the period January 1, 2011, through September 27, 2012.

We interviewed appropriate Town officials and employees in order to gain an understanding of the Board's claims audit and annual audit processes and the internal controls over the Supervisor's, Clerk's, and Justice's offices. To further accomplish the objective of the audit and obtain valid evidence, our audit procedures included the following:

- We documented all checks that were paid prior the Board's audit during our audit period and determined if they were allowed per Board resolution and the law to be paid prior to the Board's approval.
- We compared the vouchers listed on the Board-approved abstracts for the months of November 2011 and June 2012 and a sample of 31 canceled check images totaling \$91,100 from the months of April 2011, December 2011 and June 2012 (payable to Town officials, utilities, cable, phone, fuel, and any unusual vendors) to the voucher packages, the financial software data and the canceled check images to ensure that the vendor name and amount match what the Board had approved and were for legitimate Town expenditures.
- We compared the financial software data to the Board-approved abstracts for December 2011 and January 2012 to verify that all checks recorded in the financial software were properly approved by the Board.
- We verified that checks were accurately recorded in the financial software by reviewing the check sequence within the financial software and checks that cleared the bank, and ensuring that the voided checks were defaced and kept on file.
- We reviewed the bank reconciliations to verify their accuracy for December 2011 and July 2012 for the Supervisor's office and December 2011 and May 2012 for the Town Clerk and Tax Collector accounts.
- We selected a judgmental sample of 14 journal entries totaling \$993,186 from the financial software and traced them to supporting documentation to ensure they were appropriate and approved.
- We verified that the information in the December 2011 monthly report, the annual financial report and the financial software matched.
- We selected a sample of 15 receipts totaling \$589,500 from various sources and traced them to the duplicate deposit slips, bank statements, and the financial software to ensure the money received was properly recorded and deposited, timely and intact.

- We traced all 28 transfers totaling \$850,200 from the Supervisor's bank accounts during the months of April 2011, December 2011 and June 2012 to another Town bank account.
- We traced all of the withdrawals from the Supervisor's bank accounts during our audit period to supporting documentation such as payroll reports or deposits into another Town bank account.
- We traced all 20 canceled checks from the trust and agency bank account for the months of February 2011 and August 2012 to the respective personnel file to ensure the individual was a legitimate Town employee.
- We judgmentally selected one payroll from the months of February 2011, November 2011, April 2012 and July 2012, totaling \$52,400, and verified that the pay rates were approved by the Board and the hours paid agreed with employee timesheets. We also traced the amounts withheld to the authorization or other supporting documentation to ensure that the proper amount was being withheld.
- We traced 13 canceled checks or direct deposit withdrawals totaling \$7,900 from the trust and agency bank statements for April 2011, December 2011 and June 2012 for the Supervisor, bookkeeper, and Clerk to the payroll records to ensure that they were for the proper amount.
- We compared the total withholdings from the payroll reports to the canceled checks or electronic payments on the bank statements to ensure that the proper amount was being paid to the proper vendor for the second quarter of the 2012 fiscal year.
- We reviewed the July 2012 health insurance invoice and verified that the employees receiving this benefit were entitled to it, and verified the insurance buyout was properly paid.
- We reviewed the Board minutes to verify the Board's annual audit process of the offices.
- We compared the ending book balances of the Clerk, Tax Collector, and Justice for the months of December 2011 and May 2012 to the known liabilities to ensure there were no unaccounted for moneys.
- We traced any withdrawals, including on-line and wire transfers, on the Clerk's, Tax Collector's, and Justice's bank statements for the audit period to supporting documentation to ensure that they were appropriate.
- We reviewed all the Clerk's canceled checks to anyone but the Supervisor or State agencies, the Tax Collector's canceled checks to anyone but the Supervisor or Otsego County, and the Justice's canceled checks to anyone but the Supervisor, and traced them to supporting documentation to ensure that they were appropriate.
- We traced a sample of 20 paid taxes totaling \$17,700 from the tax roll to the tax software, deposit slips and bank statements to ensure that they were recorded and deposited timely and intact, and verified that the penalties collected were accurate.

- We selected 29 tax payments totaling \$33,400 received in 2011 and 2012 from the Clerk, Supervisor, and Board members from the tax software and traced them to the tax roll, deposit slip, and bank statement to ensure that they were marked paid and deposited timely and intact. We also verified that the penalties collected were accurate. If taxes were not paid by one of these individuals, we traced them to the unpaid listing provided by the County.
- We compared the real property tax warrant for both 2011 and 2012 years to the amount paid to the Supervisor to ensure the proper amount was being paid to him.
- We selected a sample of 15 receipts totaling \$835 from the Town Clerk’s manual cash receipt journal and traced them to outside documentation, her accounting software, deposit slips, the checkbook register and bank statements to ensure that they were properly recorded and deposited timely and intact.
- We selected a sample of 15 receipts totaling \$1,036 from issued licenses, the DEC daily reports, and requests for copies of certificates and traced them to the Clerk’s manual receipt journal, the accounting software, deposit slips, the checkbook register and bank statements to ensure that they were properly recorded and deposited timely and intact.
- We selected a sample of 15 receipts totaling \$2,615 from the Clerk’s accounting software and traced them to the manual receipt journal, deposit slips, the checkbook register and bank statements to ensure that they were properly recorded and deposited timely and intact. We also traced them to the issued licenses, daily DEC reports, or requests for copies of certificates.
- We selected all seven receipts totaling \$1,600 from the Court’s reporting software for the months of November 2011 and February 2012 and traced them to the bank statements, monthly reports and the Justice’s order of fine and bail amount to ensure that they were deposited timely, reported to the Justice Court Fund, and received the proper amount.
- We traced two Court bank canceled checks paid to the Supervisor and traced them to the monthly reports to ensure that they were for the correct amount.
- We judgmentally selected 10 case files and traced all recorded activity into the Court’s reporting software to ensure proper recording.
- We analyzed the Court’s accounting and reporting system backup for differences with the Justice Court records and Department of Motor Vehicle records, reviewed records and reports, and made inquiries about differences identified to ensure they could be explained.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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