



Town of Carroll

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

January 1, 2012 — May 22, 2013

2013M-221



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2014

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town 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 Carroll, entitled Internal Controls Over Selected Financial Activities. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Carroll (Town) is located in Chautauqua County and has approximately 3,500 residents. The Town is governed by an elected Town Board (Board) which consists of a Town Supervisor (Supervisor) and four council members. The Town provides services to its residents, including street maintenance, snow removal, water, police protection and general government support. General fund appropriations for the 2013 fiscal year totaled \$555,463 and were funded primarily with real property taxes and State aid.

As the chief fiscal officer of the Town, the Supervisor is required to maintain an accurate and complete account of all moneys received and disbursed and prepare and file an annual report. Two Town Justices have jurisdiction over certain criminal and civil matters and motor vehicle and traffic violations.

Scope and Objectives

The objectives of our audit were to review the Town's accounting records and reports and assess the internal controls over justice court operations for the period of January 1, 2012 through May 22, 2013. We expanded the scope of our audit back to January 1, 2010 for our review of financial reports and Justice Court records. Our audit addressed the following related questions:

- Did the Supervisor maintain adequate records and prepare and distribute appropriate reports to allow the Board to provide adequate oversight of the Town's financial operations?
- Are internal controls over Justice Court operations appropriately designed and operating effectively to allow for the proper accounting and reporting of financial activity?

Audit Results

The Supervisor did not ensure that the bookkeeper accurately maintained the Town's accounting records. As a result, the Town's accounting records were incomplete and inaccurate. In addition, the Supervisor did not adequately review the bookkeeper's monthly bank reconciliations. Consequently, the Supervisor was unaware of the discrepancies that we identified in the accounting records. The Supervisor also did not provide the Board with all the financial information it needs to monitor the Town's financial operations, and the Board did not conduct a proper audit of the Town's records.

The Justices did not provide adequate oversight of their Court operations or the work performed by the Court clerks. In addition, the Justices did not perform monthly accountabilities, and the Court clerks did not deposit all cash receipts collected intact; i.e., in the same order and form (cash or check) in which they were received. Further, we found that the Court clerks did not remit all cash receipts

to appropriate parties in a timely manner, did not always issue receipts for moneys collected for bail and did not report all tickets issued and fines and fees collected to the Justice Court Fund. Also, Town officials did not perform an adequate audit of the Justices' records.

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. 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.

Introduction

Background

The Town of Carroll (Town) is located in Chautauqua County and has approximately 3,500 residents. The Town is governed by an elected Town Board (Board) which consists of a Town Supervisor (Supervisor) and four council members. The Town provides services to its residents, including street maintenance, snow removal, water, police protection and general government support. General fund appropriations for the 2013 fiscal year totaled \$555,463 and were funded primarily with real property taxes and State aid.

As the chief fiscal officer of the Town, the Supervisor is required to maintain an accurate and complete account of all moneys received and disbursed. Also, the Supervisor is responsible for preparing and filing an annual report. In addition, the Supervisor acts as the Town's budget officer. Currently, the Town employs a bookkeeper to assist the Supervisor in these duties.¹

Town justices have jurisdiction over certain criminal and civil matters and motor vehicle and traffic violations. They impose and collect fines and bail. In addition, justices are responsible for reporting adjudicated cases² and the financial activities of their court to the Justice Court Fund (JCF) on a monthly basis. The Town currently has two elected Justices and two part-time Court clerks to assist with certain Court duties. During 2012, the Justices collected approximately \$28,000 in fines, fees, bail and surcharges.

Objectives

The objectives of our audit were to review the Town's accounting records and reports and assess the internal controls over justice court operations. Our audit addressed the following related questions:

- Did the Supervisor maintain adequate records and prepare and distribute appropriate reports to allow the Board to provide adequate oversight of the Town's financial operations?
- Are internal controls over Court operations appropriately designed and operating effectively to allow for the proper accounting and reporting of financial activity?

Scope and Methodology

We examined various financial records and reports of the Town and Justice Court for the period of January 1, 2012 through May 22, 2013.

¹ As of May 1, 2013, the Town retained an accounting firm to assist with bookkeeping duties.

² Town justices also report the adjudication of motor vehicle and traffic violations to the New York State Department of Motor Vehicles (DMV).

We expanded the scope of our audit back to January 1, 2010 for our review of financial reports and Justice Court records.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix 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 Board to make this plan available for public review in the Town Clerk's office.

Records and Reports

The Town's financial data must be complete, accurate and current to be appropriate for managing Town operations. The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions, including maintaining accounting records, providing monthly financial reports to the Board and filing the annual update document (AUD) with the Office of the State Comptroller (OSC). The AUD is a summary of the Town's annual financial information which should agree with and be supported by the accounting records.

The Supervisor did not ensure that the bookkeeper accurately maintained the Town's accounting records. As a result, the Town's accounting records were incomplete and inaccurate. In addition, the Supervisor did not adequately review the bookkeeper's monthly bank reconciliations. Consequently, the Supervisor was unaware of the discrepancies that we identified in the accounting records. The Supervisor also did not provide the Board with all the financial information it needs to monitor the Town's financial operations, and the Board did not conduct a proper audit of the Town's records.

Accounting Records

The Supervisor is responsible for maintaining adequate accounting records that allow for useful periodic and annual reports to be provided to the Board for its review. It is essential that the Board ensure that the information in the Town's financial management system is up-to-date and accurate, so that it can effectively exercise its oversight responsibility. Local governments must account for moneys received and disbursed through separate funds, each of which is a fiscal and accounting entity with a self-balancing set of accounts. Adequate accounting records consist of journals, ledgers and other financial documents that provide a record of all Town transactions and account balances in a timely manner. In addition, the Supervisor must perform monthly bank to book reconciliations to ensure the timely identification and documentation of differences between the accounting records and bank balances. If the Supervisor assigns these duties to a bookkeeper, he should provide sufficient oversight to ensure the bookkeeper's reconciliations are reliable.

We found that the Town's accounting records were incomplete and inaccurate. We identified inaccurate accounting records, inadequate accounting practices and general confusion on the part of the bookkeeper as to how to perform certain accounting transactions. We also found that the Supervisor did not provide adequate oversight of the bookkeeper's work and was unaware of most of the discrepancies that we found in the Town's accounting records. The Supervisor did not ensure that the bookkeeper maintained a separate balance sheet

for each of the Town's five funds: general, highway, water, capital and trust and agency. This made it difficult for the Supervisor and the Board to determine the funds' respective financial condition. According to the Supervisor, Town officials rely on the cash balances for each fund to determine the funds' financial position. However, we found that, as of December 31, 2012, the cash balances for the general, water and trust and agency funds were incorrect. The trust and agency fund's cash balance was understated by \$39,249, the water fund was overstated by \$20,483 and the general fund was overstated by \$8,030. The bookkeeper was unaware of the discrepancies and, when we brought them to her attention, could not determine the cause of the differences.

While reviewing the combined balance sheets for all five funds from 2011 and 2012, we identified two unusual account titles listed on the trial balance: "Ask my Accountant" and "Reconciliation Discrepancies." The bookkeeper told us that she was unsure of how to handle certain transactions and recorded them in the "Ask my Accountant" account, which had a balance of \$40,364 at the end of 2011 and \$16,516 at the end of 2012. She told us that she was planning to discuss these transactions with the accountant. The "Reconciliation Discrepancies" account had a balance of \$616 at the end of 2012, which the bookkeeper was unable to identify. In addition, during our review of the bookkeeper's bank reconciliations, we identified three transactions totaling \$4,243 that had not cleared on the general fund bank reconciliation. Although these transactions dated back to December 8, 2010 and July 15, 2011, the bookkeeper was unable to provide any information regarding these transactions. The Supervisor did not adequately review the monthly bank reconciliations and, as a result, he was unaware of these discrepancies.

On the December 31, 2010 trial balance, we also identified a \$225,701 balance listed as "Other Liabilities," which remained the same through December 31, 2012. In the account detail, we identified two entries dating back to June 2009 and one entry dated January 22, 2010, for \$116,018. The 2010 entry appears to be the amount of taxes levied for the fire district. If the entry was for taxes levied for the fire district, they should have been remitted to the fire district and removed from the "Other Liabilities" account.

Due to the inadequate condition of the records, we reviewed cash receipts and disbursements³ records to determine if they were recorded properly. We reviewed 35 disbursements totaling \$58,595 made during 2012 and found 31 payments totaling \$53,166 that were not recorded on an abstract of audited claims and, therefore, were

³ The 35 disbursements represent those checks that were not included on disbursement transaction logs.

not approved by the Board prior to payment.⁴ In fact, \$15,044 of the total was paid to the Internal Revenue Service (IRS) for tax liens and penalties due to incorrect reporting of payroll taxes. Other than the Supervisor, Board members were not aware of the IRS tax liens and penalties until we informed them.

During our review of cash receipts, we also found that Court revenues were overstated by \$12,890 at the end of 2012 because the bookkeeper improperly recorded Justice Court receipts. After the Town Justices remit monthly fines and fees to the Town, the Town is notified of and remits the State's share to the JCF and the remaining amount should be recorded as Town revenue. However, the bookkeeper recorded all Justice remittances as Court revenues in the Town's revenue account.

In addition, we found that the bookkeeper recorded the employees' share of retirement costs and employees' deferred compensation contributions in the retirement expenditure accounts in the general and highway funds, instead of in the trust and agency fund. In 2012, this caused highway expenditures to be overstated by \$6,363 and general expenditures to be overstated by \$1,437.

The bookkeeper experienced difficulties in maintaining the Town's accounting records partly due to her lack of knowledge regarding the financial software being used by the Town and because the accounting software had not been properly set up to be used for governmental accounting.

The bookkeeper resigned in April 2013, and the Town retained an accounting firm in May 2013 to perform bookkeeping services and assist in completing the Town's 2011 AUD, filing its 2012 AUD and correcting numerous reporting errors in its 2010 report. However, Town officials told us that the Town's accounting firm hired the bookkeeper who had just resigned from the Town to assist the firm with the Town's bookkeeping functions.

The inadequate accounting records do not provide Town officials with an accurate depiction of the Town's financial position and, therefore, Town officials cannot effectively monitor the Town's financial condition or operations throughout the year. The Town's poor accounting records have created an environment where the Town's financial condition could significantly deteriorate. Without accurate accounting records, the Board would be unable to make informed decisions to remedy the situation. In addition, the Town will incur significant costs for the accounting firm to identify the errors and complete the annual reports.

⁴ Although these payments were not approved by the Board prior to them being paid, we determined that the expenditures were for appropriate Town purposes.

Annual Update Document

The Town is required by General Municipal Law to file its AUD with OSC within 60 days of its fiscal year end. If needed, the Town may request a 30-day extension for submitting its AUD. The AUD is an important fiscal tool that provides the Board with necessary information to monitor Town operations and provides other interested parties with a summary of the Town's financial activities.

The Town did not file its 2011 or 2012 AUDs with OSC and it did not request a 30-day extension in 2011 or 2012. Also, we reviewed the reported balances on the Town's 2010 AUD and found several errors. For example, the Town reported the amounts of 21 revenue and expenditure accounts as budgeted amounts instead of actual amounts. Also, the Town's records did not agree with the amounts reported for many of the remaining accounts.

When we compared cash balances for general ledger accounts recorded in the Town's trial balance on December 31, 2010 with the cash balances reported on the 2010 AUD, we found that the cash balances reported on the AUD were \$327,365 less than the amounts recorded in the general ledger. We also could not trace four prior-period adjustments totaling \$234,158 to supporting documentation. The general fund had a \$131,587 prior-period adjustment, the highway fund had a \$79,245 adjustment, the water fund had a \$23,226 adjustment and the capital fund had a \$100 adjustment. The bookkeeper was unable to provide us with any information regarding these adjustments.

The poor condition of the Town's accounting records contributed to the Town being delinquent in filing its 2011 and 2012 AUDs. The failure to annually prepare and file an AUD leaves the Town without a means to demonstrate its financial standing to the Board, taxpayers, OSC and any other interested parties.

Supervisor Reports

According to Town Law, the Supervisor is required to submit detailed financial reports to the Board on a monthly basis. The monthly financial reports to the Board must provide a detailed accounting of moneys received and disbursed. These reports also should include cash balances, monthly bank reconciliations and budget-to-actual results of operations, which would allow the Board to monitor Town operations against the budget. Detailed financial reports enhance the Board's ability to oversee financial activities and monitor the Town's budget.

The Supervisor did not submit to the Board the required detailed statement of all moneys received and disbursed during the month, accurate cash balances for the Town's accounts, any type of budget information on a timely basis or a list of reconciled bank account

balances on a monthly basis. Because the Supervisor did not ensure that the bookkeeper maintained appropriate accounting records, he was unable to prepare, or have her prepare, timely, accurate and complete reports for the Board. The Board should have questioned and addressed the lack of monthly Supervisor reports.

Annual Audit

According to Town Law, the Board is required to annually audit the financial records of all Town officials who receive or disburse moneys on the behalf of the Town. An annual audit helps the Board fulfill its fiscal oversight responsibilities by providing an opportunity to assess the reliability of the books, records and supporting documents. It also provides Board members with an assurance that the financial records and reports contain reliable information on which to base financial decisions. After completing the audit, the Board should ensure that the completion and results of the audit are included in the minutes of its proceedings. Also, the Board should ensure that documentation is filed with the minutes that provides an explanation of how the audit was performed and the records that the Board reviewed during the audit.

While the January 2013 minutes of the Board's proceedings indicated that the Board conducted an audit of the Supervisor's and Justices' records for 2012, there was no indication of what the Board had reviewed or whether any findings resulted from its audit. We discussed the audit process with Board members who told us that their audit consisted of signing the Supervisor's and Justices' December bank statements.⁵

Had the Board performed even a cursory audit of the Town's records, it would have identified the discrepancies described in this report. In addition, without documentation of the Board's audit steps, results and required corrective action in the minutes of its proceedings, Town taxpayers do not have any assurance that the Board performed a thorough audit and communicated its findings to the Supervisor, so that he could take action.

Recommendations

1. The Supervisor should ensure that the Town's accounting records are complete, accurate and maintained in a timely manner. If the Supervisor hires a bookkeeper or contracts with an independent public accountant (IPA) to perform these duties, he should ensure that the individual or IPA is qualified to accurately and adequately complete the tasks.

⁵ The Town Clerk told us that she submits her records, including the tax collection records, to the Board for review at the same time that the Supervisor and Justices submit their records. However, the Board had not signed her bank statements to indicate that it had reviewed them.

2. The Supervisor should submit accurate AUDs to OSC in a timely manner and ensure that the AUDs are fully supported by the accounting records.
3. The Supervisor must provide the Board with a monthly Supervisor's report that includes an accounting of all cash receipts and disbursements. Also, the Supervisor should consider including cash balances and budget-to-actual updates for all funds.
4. The Board should conduct a comprehensive annual audit of the financial records of all officers who receive or disburse Town funds and document the results of its audit in the minutes of its proceedings. To assist in the performance of its audit function, the Board should review OSC's publication entitled *Fiscal Oversight Responsibilities of the Governing Board*.⁶

⁶ This publication is available on our website: www.osc.state.ny.us/localgov/pubs/lmg/fiscal_oversight.pdf.

Justice Court

Town justices are responsible for establishing internal controls to ensure that all fines and fees received are properly recorded, remitted and protected against the threat of being lost or stolen. Justices must ensure that internal controls are in place and working effectively, particularly when their Court clerks' duties are not properly segregated. The Board should perform the required annual audits of the Justices' records or obtain an IPA to perform the audits. As part of the audit, the Board or IPA should review the Justices' enforcement of unpaid tickets and timely reporting to the New York State Department of Motor Vehicles (DMV) and the JCF.

The Justices did not provide adequate oversight of their Court operations or the work performed by the Court clerks. In addition, the Justices did not perform monthly accountabilities, and the Court clerks did not deposit all cash receipts collected intact; i.e., in the same order and form (cash or check) in which they were received. Further, we found that the Court clerks did not remit all cash receipts to appropriate parties in a timely manner, did not always issue receipts for moneys collected for bail and did not report all tickets issued and fines and fees collected to the JCF. Also, Town officials did not perform an adequate audit of the Justices' records.

Accountability

Each month, Justices are required to account for cash receipts and disbursements, verify the accuracy of their financial records and reconcile all Court bank accounts. Justices also should perform an accountability of money they hold by preparing a list of Court liabilities and comparing it with reconciled bank balances. At any point in time, Court liabilities, such as bail held on pending cases and unremitted fines and fees, should equal the Justices' available cash.

The Justices did not perform a monthly accountability. We performed an accountability for each Justice and found that, as of March 26, 2013, Justice Gray had an unidentified balance of \$1,089 while Justice Cass had a cash shortage of \$464. We determined that reporting errors of \$429 were the primary cause of Justice Cass' shortage.

The Justices and Court clerk told us at the beginning of our audit that both Justices' accounts had unidentified surplus funds that had been carried forward from previous Justices' accounts. To determine whether this was the case, we prepared an accountability for both Justices' accounts as of January 31, 2010 and found that Justice Gray had unidentified funds of \$1,284 while Justice Cass' account did not have any unidentified funds.

Because the Justices failed to perform monthly accountabilities, they were unaware of the amount of their unidentified funds and shortages. Because these amounts changed over time, additional errors and potential irregularities have occurred and gone undetected and uncorrected.

Collections/Receipts

To ensure that all cash receipts are properly accounted for, the Justices must ensure that the Court clerks maintain detailed records of all transactions, which includes issuing duplicate receipts for all collections. The Court must remit all cash receipts received by the Town by the tenth day of the following month in which the fines or fees were collected, so that the Town may forward these receipts to the JCF when notified.

Cash Receipts — We reviewed all 684 manually prepared receipts totaling approximately \$81,000, issued between January 1, 2010 and February 28, 2013 and found 10 receipts totaling \$1,580 that had not been reported to the JCF. The Court clerks gave us a variety of reasons why these receipts had not been reported to the JCF. For five of the receipts totaling \$620, the reasons that the Court clerks gave us for failing to report these receipts were inadequate. For example, the Court clerks could not provide us with any reason why they did not report one receipt for \$200, and they incorrectly reported \$125 that was paid for a fine as being dismissed. For the activity related to fines and civil fees, the Court clerks should have reported these cash receipts to the JCF for the month in which the cash was received and remitted the moneys to the Town, which would have then forwarded the applicable amounts to the JCF.

The remaining five receipts for bail and restitution totaling \$960 were not required to be reported to the JCF. However, the clerks did not record these moneys in the Court's accounting records as being received and distributed. Two of the receipts totaling \$700 received in cash were for bail that the Court received on the behalf of the Town of Kiantone Justice Court. Although we determined that this amount had been deposited in the Town of Kiantone Justice Court's account, the Town of Carroll Justice Court had no record of these moneys being collected or distributed. The remaining two receipts for \$260 were received in cash for restitution that the Court collected and remitted in cash directly to the individuals to whom it was owed. Again, these moneys were never recorded in the Court's accounting records as being collected or distributed. Because the receipts for bail and restitution were paid and distributed in cash but not recorded in the accounting records, the Justices have no assurance that the amounts collected and distributed were accurate.

We also found that the Court clerks did not routinely prepare receipts for bail moneys. For example, we identified \$6,200⁷ in bail moneys recorded from January 2010 through February 2013 for which Court officials could not provide us with any receipts. Because the Court clerks perform cash receipt duties without adequate oversight by the Justices, the Court has an increased risk that cash and checks received may not be deposited or recorded accurately.

Remittance of Court Moneys — The Court clerks did not always remit moneys to the Town in a timely manner. For example, we found a partial payment of \$300 that was paid toward a fine in December 2011 that the clerks did not remit until the balance of the fine was paid in December 2012. In addition, \$525 in fines received but not remitted consisted of amounts received as far back as May 2010. Further, the Justices collected fines totaling \$2,215⁸ in August 2011 but did not remit these moneys to the Town until we discussed these fines with the Justices in May 2013. Because the Court clerks perform duties without adequate oversight by the Justices, the Court has an increased risk that moneys may not be appropriately remitted in a timely manner.

Deposits — We reviewed all deposits made during our audit period, totaling approximately \$96,000, to determine if cash receipts paid by check were deposited intact and found three instances totaling \$570 where one of the Court clerks (Spontaneo) had deposited a personal check and removed the associated cash from the deposit.

We also found an additional four checks for civil filing fees totaling \$70 that were deposited in the Court's account. According to one of the Court clerks, she had deposited these four checks but did not report the fees and amounts to the JCF and did not remit this amount to the Town. She also said that she did not deposit cash totaling the same amount from other collections, so that the cash would be available to pay related fees. As stated previously, the Court must deposit and report all civil filing fees received to the JCF. When Court receipts are not appropriately recorded and deposited intact and unrecorded checks are substituted for cash, there is a significant risk that Court funds could be misappropriated.

In addition, we found one receipt for fines totaling \$95 that the Court clerks told us they had not deposited because the money had been misplaced. However, the clerks did report the associated tickets to the DMV as being paid in February 2013, so that the individual would

⁷ Justice Gray received six payments totaling \$4,900, and Justice Cass received three payments totaling \$1,300.

⁸ Justice Cass received \$1,240 in fines, and Justice Gray received \$975 in fines.

not have outstanding tickets. After we discussed this receipt with the Court, it deposited \$95 in the Court's account and reported it on the May 2013 JCF report.

Because the Justices did not provide adequate oversight of the work performed by the Court clerks, the Court has an increased risk that cash and checks received may not be deposited and/or remitted to the Town and ultimately to the JCF.

Tickets

The Justices are responsible for the enforcement of traffic tickets to ensure laws are enforced, fines are collected as efficiently and effectively as possible, and activity is properly reported to the JCF. When a ticket is issued, relevant information is sent electronically to DMV. When a case is adjudicated and fines are paid in full or the case is dismissed, it can be closed. While this step includes recording the payment in the Court cashbook and in the monthly JCF report, it also requires the Court to send this information to the DMV so that the case can be properly accounted for as "disposed" in its database. It is important that the Court report closed cases to DMV in a timely manner, so that the defendant's DMV record is correct. Cases reported as disposed to DMV should appear in the Court's monthly report to the JCF, and any related fines should be remitted to the JCF.

We reviewed all 1,365 of the tickets that the Court reported to the JCF and DMV during our audit period, with fines totaling approximately \$81,000, and found that the Justices were not properly reporting all of the tickets and cases disposed of. Our comparison found the following:

- Seventeen tickets had been dismissed, but not reported to the JCF. Nine had been reported to the DMV as being disposed of, but the Court clerk told us that her records indicated that three were still pending.
- Six tickets were reported to the DMV but were not reported to the JCF. The Court could not locate two of the tickets to provide them for our review. The Court clerk told us that her records indicated that one of these tickets was still pending.
- Six other tickets were reported to the JCF, but we found discrepancies between the information reported to the JCF and the information identified on the ticket or the related case files. Four were reported to the JCF with different amounts than were recorded on the tickets. The fines reported to the JCF totaled \$340 for these tickets, but the recorded amounts on the tickets totaled \$355. Another one of the tickets had a recorded fine amount totaling \$50 on the ticket but was reported to the

JCF and DMV as being dismissed. The remaining ticket was reported to the JCF and DMV with a fine totaling \$10, but on the ticket it was recorded as being dismissed.

- Four tickets were reported to the JCF, but the Court had no case file information or any other records on these tickets.

It is unusual to report tickets as being disposed to the DMV without also reporting them on the JCF monthly report. There is a risk that these fines could have been paid in cash and not recorded, or deposited and not recorded.

Annual Audit

Every town justice is required to present his or her records and dockets at least once each year to be examined by the Board or an IPA. In conducting the review, it is important for the Board to determine whether the Court has effective procedures to ensure that the Court's financial transactions are properly recorded and reported and that all moneys are accounted for properly.

The minutes of the November 14, 2012 Board's proceedings indicate that the Board reviewed the Justice Court books. However, Town officials could not provide us with any documentation to indicate the time period covered by the audit, the extent of the Board's review or whether the Board found any exceptions, discrepancies or items needing corrective action.

Had the Board performed an adequate audit of the Justices' records, it could have identified the discrepancies that we found during our audit. Without an effective audit of the Court's records that includes available cash, bail and monthly accountabilities, the Town cannot provide assurance to taxpayers and State officials that all moneys are properly accounted for and reported.

Recommendations

5. The Justices should perform monthly accountabilities and should promptly investigate and resolve any discrepancies. The Justices should report and remit any unidentified balances to the JCF.
6. The Justices should ensure that the Court clerks prepare receipts for all moneys collected and remit these moneys to appropriate parties, including remitting Court revenues to the Town, in a timely manner.
7. The Justices should ensure that the Court clerks deposit all cash receipts intact and in a timely manner.

8. The Justices should ensure that the clerks maintain sufficient information to identify the nature of all moneys collected and remitted to other courts or individuals. All remittances should be by check.
9. The Justices should ensure that the Court clerks accurately report the disposition of all tickets to the JCF in a timely manner.
10. The Board should perform a thorough audit of the Court's records on an annual basis and document evidence of the audit in the minutes of its proceedings indicating the audit tests performed, the records reviewed and the results of the audit. To assist in the performance of its audit function, the Board should review our publication entitled *Handbook for Town and Village Justices and Court Clerks*.⁹

⁹ This publication is available on our website: <http://www.osc.state.ny.us/localgov/pubs/jch.pdf>.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF CARROLL

5 W. Main St. • P.O. Box 497
Frewsburg, NY 14738



Phone (716) 569-5365

Fax (716) 569-6331

March 4, 2014

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street Suite 1032
Buffalo, NY 14203-2510

Re: Town of Carroll Audit Response:

Dear Robert E. Meller:

In response to the draft findings, I do not disagree with the condition of the accounting records or the lack of detailed financial reports to the town board members. I have taken steps to correct the errors listed in your draft report, and all bank accounts have been reconciled for the 2010 through 2013 period by our independent Certified Public Accounting firm. The Ask My Accountant category has been eliminated, court revenue reporting has been corrected, and retirement expenses are correctly recorded. The Internal Revenue tax liens and penalties have been released and all payroll reporting has been prepared by our independent accountant.

The annual update documents will be completed when the corrected accounting records are reconciled, our independent accounting firm is in the process of completing these documents.

I have instructed our independent accounting firm to supply detailed financial reports to the board on a monthly basis, at the present time reports are being created that monitor financial activity with budgeted amounts. Monthly bank statements have been available to the board at every meeting throughout the audit period in question.

The annual audit process has consisted of making the year to date check register and year-end bank statements available to the town board. At the present time our independent accounting firm is developing a cost effective plan that will allow the board review individual transactions through the accounting process from approval, payment and financial reporting.

If you have any questions do not hesitate to contact me.

Sincerely,

Jack Jones Jr. Supervisor

Town of Carroll
Justice Court
5 West Main Street
PO Box 497
Frewsburg, New York 14738
(716) 569-5365

March 5, 2014

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Re: Justice Court Audit, Town of Carroll

This letter is in response to the audit recently completed of the Town of Carroll Justice Court accounts.

We have examined the findings of the draft as submitted by the auditor. All of the objections by the auditor were constructive and have been corrected at this time. We appreciate the hard work and time spent on behalf of the auditor.

However, the audit stated that Judge Cass had a cash shortage in his justice account. It is our opinion that when a lay person reads an audit and sees the word "shortage", the first thing he thinks about is that the funds are missing. The recent audit of this account revealed that the funds were not missing and were accounted for. It is therefore our opinion that the audit should be corrected so there is no mention of the word shortage.

See
Note 1
Page 22

Respectfully submitted,

Willard W. Cass, Town Justice

Robert E. Gray, Town Justice

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

Our audit identified reporting errors that, if corrected, would account for the majority of the cash shortage in Justice Cass's account. However, if these errors are not corrected, the account will still have a cash shortage. The Justice did not provide us with any documentation to indicate he had corrected the errors.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: the Justice Court, Town Clerk, tax collection, Supervisor's records and reports, cash receipts and disbursements, claims processing, procurement and payroll.

During the initial assessment, we interviewed appropriate Town officials, performed tests of transactions and reviewed pertinent documents, such as Town policies, Board minutes and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, or professional misconduct. We then decided on the reported objective and scope by selecting for audit the areas most at risk. We selected internal controls over records and reports and the Justice Court.

To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following steps:

Records and Reports

- We interviewed Town officials and employees responsible for financial oversight and maintaining accounting records.
- We reviewed policies and procedures related to the accounting records and budgets.
- We reviewed the general ledgers, cash receipts and disbursement journals, journal entries, bank reconciliations and budget reports to determine if these accounting records were accurate and maintained in a timely manner.
- We traced a sample of general ledger accounts balances as of December 31, 2012 to supporting documentation. We judgmentally selected the sample based on our review of previous balances and then selected those that fluctuated drastically from the previous year. We also selected those accounts that did not have correct account numbers assigned and all cash accounts. We expanded our test to include accounts reported on the 2010 AUD.
- We reviewed financial information provided to the Board and documented the Board's procedures to provide oversight of Town finances.
- We reviewed the procedures and results of the Board's annual audit of the Supervisor's records.
- We obtained transaction detail by account reports for the period of January 2012 through March 2013 and compared documented disbursements against abstracts for the period of January 1, 2012 through February 2013 (March abstracts were not yet prepared) to determine if all disbursements were recorded on the abstracts. For those checks that were not listed on the

abstract, we obtained canceled check images from the bank and reviewed them to determine if the payments were appropriate Town expenditures. We also scanned the transaction logs for unusual payments.

- We judgmentally selected a sample of 19 receipts from recorded deposits found on January 2012 through February 2013 bank statements to determine if they were properly recorded, supported and reported. We focused our sample on those receipts with material amounts and anything that came to our attention during planning.

Justice Court

- We interviewed both Justices, both Court clerks and other Town officials to gain an understanding of Court operations.
- We prepared monthly bank reconciliations and accountabilities as of January 31, 2010 and March 26, 2013.
- We reviewed the Court's records relating to the collection and subsequent disposition of fines and bails. These records include bank statements, canceled checks, monthly reports to the JCF and case files. Using this information, we determined if receipts were properly recorded and deposited, if moneys had been remitted in a timely and accurate manner and if the internal controls over these functions were adequate.
- We reviewed the Court's JCF reports and compared the information with the Justices' deposits as recorded in the Court's accounting system, details of the bank deposit tickets and the Court's bank statements. We requested bank deposit compositions for the period of January 1, 2010 through March 26, 2013 to compare checks and cash deposited against cashbook entries to determine if receipts were deposited intact and in a timely manner.
- We obtained a list of outstanding bail to verify that recorded and returned amounts agreed with case files.
- We obtained JCF and DMV data and compared it with Court records.
- We reviewed the procedures and results of the Board's annual audit of the Court's records.

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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