

Town of Decatur

Disbursement Oversight and Accounting Records and Reports

NOVEMBER 2020



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Disbursement Oversight. 2**
 - What Is an Effective Claims Audit Process? 2
 - The Board Did Not Always Properly Approve Claims 2
 - How Should the Board Provide Disbursement Process Oversight? . . 4
 - The Board Did Not Annually Audit the Supervisor’s Records 4
 - What Do We Recommend? 4

- Records and Reports 5**
 - How Should the Supervisor Record and Report Financial Information? 5
 - Accounting Records and Reports Were Incomplete, Inaccurate and Untimely 6
 - Town Officials Did Not File Required AUDs and Tax Cap Forms 7
 - What Do We Recommend? 7

- Appendix A – Response From Town Officials 8**

- Appendix B – Audit Methodology and Standards 9**

- Appendix C – Resources and Services 11**

Report Highlights

Town of Decatur

Audit Objectives

Determine whether the Town of Decatur (Town) Board (Board) provided adequate oversight of the disbursement process.

Determine whether the Town Supervisor (Supervisor) maintained complete, accurate and timely accounting records and reports.

Key Findings

The Board did not provide adequate oversight of the disbursement process and the Supervisor did not maintain complete, accurate and timely accounting records and reports.

- The Board did not approve all claims, require adequate supporting documentation for all claims or annually audit, or provide for an audit of, the Supervisor's records and reports.
 - The 2018 general ledger was significantly incomplete and the 2019 general ledger had several accounts misclassified.
 - The annual financial reports (known as AUDs) and tax cap forms were not filed, as required.
 - As a result, the Board was unaware that the 2019 levy significantly exceeded the cap and did not pass the required local law to override the cap.

Key Recommendations

- Ensure all claims are supported by sufficient supporting documentation.
- Annually audit the Supervisor's records and reports.
- File AUDs and tax cap forms in a timely manner.

Background

The Town is located in Otsego County.

The Town is governed by an elected five-member Board, which consists of the Supervisor and four Council members. The Board is responsible for general oversight of the operations and finances.

The Supervisor serves as the chief executive officer and chief financial officer. The Supervisor designated a bookkeeper who records and reports the financial transactions.

Quick Facts

2019 Appropriations	\$488,890
2019 Tax Levy	\$338,236
Population	350

Audit Period

January 1, 2018 – December 31, 2019

Disbursement Oversight

What Is an Effective Claims Audit Process?

Town boards are responsible for ensuring that disbursements are for legitimate purposes by thoroughly reviewing and approving claims before payment. The claims audit process should include a thorough and deliberate examination to determine whether the claim is a legal obligation and proper charge against the town. As a general rule, a claim package should contain enough detail and documentation so that the auditing body is supplied with sufficient information to make that determination.

New York State Town Law requires, with certain exceptions, all claims be audited and approved by the town board.¹ Certain payments, such as fixed salaries and principal or interest payments on debt, can be made without the normal audit process. Other payments, such as public utility services and postage, generally may, by board resolution, be paid in advance of audit. However, these claims should be audited as soon as possible after payment and included on the next abstract (list of claims) presented for board approval.

The Board Did Not Always Properly Approve Claims

At each monthly meeting, Board members reviewed and approved individual claims for payment. The bookkeeper then prepared the checks to pay the claims, which the Supervisor signed. At times, the Supervisor requested a blank check from the bookkeeper to pay claims himself. As a result, these payments may not have been recorded in the check register or the accounting system in a timely manner because the bank accounts were not properly reconciled.²

However, the Board did not always require that adequate support be submitted before approving claims for payment, and Town officials did not ensure all disbursements were properly approved and recorded in a timely manner.

As a result of these weaknesses, we scanned all bank statements within the audit period and reviewed a sample of 26 canceled check images totaling \$16,396, and all 58 canceled check images that cleared the bank in February 2018 and September 2019 totaling \$169,471, to determine whether these disbursements were adequately supported and approved for payment.³

The claims audit process should include a thorough and deliberate examination to determine whether the claim is a legal obligation and proper charge against the town.

...[T]he Board did not always require that adequate support be submitted before approving claims for payment...

1 New York State Town Law, Sections 118 and 119

2 Refer to Accounting Records and Reports Were Incomplete, Inaccurate and Untimely.

3 Refer to Appendix B for information on our sampling methodology.

For the 84 disbursements tested, we found the following exceptions with 15 disbursements totaling \$134,316 (Figures 1 and 2).

Figure 1: Disbursements Approved and Paid Without Supporting Documentation

Description	Amount
Truck	\$125,000
Fuel (2)	\$4,936
Monthly Health Insurance Premiums	\$2,529
Software Reimbursement to the Former Supervisor	\$289
Equipment Parts (2)	\$266
Internet Service (2)	\$250
Total	\$133,270

() Represents the number of disbursements

Figure 2: Disbursements Paid Before Board Audit and Approval

Description	Amount
Garbage Pickup	\$725
Advertising (2)	\$147
Internet Services (2)	\$120
Post Office Box	\$54
Total	\$1,046

() Represents the number of disbursements

Aside from minor deficiencies discussed with Town officials, we found that these disbursements were for legitimate purposes. Although we were unable to view supporting documentation for monthly health insurance premiums, two disbursements for fuel and two disbursements for internet services, the amounts and payment cycles were similar to other payments approved to these vendors.

In addition to the discrepancies previously discussed, we found one \$200 reimbursement made to the Tax Collector for internet services that was paid before Board audit and approval and contained no supporting documentation.

Because of the lack of supporting documentation and Board audit and approval before payment, there is an increased risk that errors and irregularities could occur and not be detected and corrected in a timely manner.

How Should the Board Provide Disbursement Process Oversight?

The board fulfills its oversight responsibility, in part, through annually auditing, or providing for an annual audit of, the records of town officers and employees responsible for receiving and disbursing money.⁴ These audits provide assurance that public funds are handled properly and provide oversight of financial operations. They also identify conditions that need improvement.

The annual audits should be thorough, and the results should be documented in the board minutes. When done properly, such audits can provide board members with a better operational understanding, which is essential to effective oversight.

The Board Did Not Annually Audit the Supervisor's Records

The Board did not provide necessary oversight by annually auditing the Supervisor's records. Had they done so, they may have detected the previously discussed deficiencies. The lack of Board oversight may put the Town at risk for additional errors and irregularities to continue to go undetected and remain uncorrected.

What Do We Recommend?

The Board should:

1. Ensure that claims contain sufficient supporting documentation before approving them for payment.
2. Annually audit, or provide for an audit of, the Supervisor's records and reports.

The lack of Board oversight may put the Town at risk for additional errors and irregularities to continue to go undetected and remain uncorrected.

⁴ Refer to our publication *Fiscal Oversight Responsibilities of the Governing Board* at www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf for guidance on annual audits.

Records and Reports

How Should the Supervisor Record and Report Financial Information?

A town supervisor is responsible for maintaining accurate financial records that summarize financial activities. The accounting records should document the assets, liabilities, fund equity and results of operations (revenues and expenditures) for each town fund. If the supervisor assigns these duties to a bookkeeper, the supervisor should provide sufficient oversight to ensure the bookkeeper maintains suitable records, documents financial information accurately and timely, and provides useful reports to the board.

The supervisor performs an essential control activity that helps ensure all receipts and disbursements are properly recorded when reconciling bank account balances with the accounting records or reviewing such reconciliations prepared by the bookkeeper. Monthly bank reconciliations provide a way to identify, correct and document differences between the town's records and bank transactions.

Complete and accurate records allow the supervisor to provide monthly reports to the board to facilitate timely and prudent financial decisions. These reports should include a detailed accounting of all money received and disbursed and detailed year-to-date, budget-to-actual comparisons of revenues and expenditures for each fund.

New York State General Municipal Law (GML) requires the supervisor to file an AUD with the State Comptroller's office (OSC) within 60 days of the end of the town's year.⁵ Town officials have the option to request an extension which, if granted, would extend the deadline to 120 days after the end of the fiscal year. The AUD provides the board, OSC, town residents and other interested parties with a tool to monitor and evaluate financial operations.

In accordance with GML, the total amount to be raised through real property taxes charged on the town's taxable assessed value of property is capped at 2 percent or the rate of inflation, whichever is less, with some exceptions. Towns have the ability to override the cap.⁶ To comply with the law, towns are required to file an annual property tax levy limitation form (tax cap form) with OSC to ensure the town is in compliance with the tax cap, properly passed a local law to override the tax cap or put any overage into the required reserve.⁷

The supervisor performs an essential control activity that helps ensure all receipts and disbursements are properly recorded when reconciling bank account balances with the accounting records...

⁵ New York State General Municipal Law (GML), Section 30

⁶ Refer to OSC's *Property Tax Cap Instruction* available at www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-02/instructions.pdf

⁷ GML, Section 3(c)

Accounting Records and Reports Were Incomplete, Inaccurate and Untimely

Neither the Supervisor nor the bookkeeper maintained complete, accurate and up-to-date accounting records and reports. Specifically, we found the following recordkeeping deficiencies:

- The 2018 general ledger was significantly incomplete, missing complete months of transactions and other significant transactions. For example, no real property tax revenues were recorded in the general fund, and a \$10,618 expenditure for insurance paid in February 2018 was not recorded.
- The 2019 general ledger had several accounts misclassified. For example, real property tax revenues were incorrectly recorded in three separate accounts, all of which were incorrectly classified as balance sheet accounts instead of revenue accounts.
- The bookkeeper did not always record disbursement checks in a timely manner. Therefore, the bank reconciliation reports the bookkeeper generated from the financial software did not always include outstanding checks as necessary. Consequently, the recorded book balances reported were overstated. In addition, the Supervisor did not always transfer funds to the payroll and highway bank accounts on a timely basis. As a result of these deficiencies, the Town received multiple non-sufficient fund notices during the audit period, although there were no related bank fees or charges.

As a result of these recordkeeping deficiencies, Town officials were unable to use the financial accounting software to generate interim reports for the Board. Instead, each month, the Board received bank balances and summary payroll, receipts and disbursements information compiled from Board-approved abstracts and other sources. In addition, although the Board received detailed budget-to-actual comparisons for expenditures for highway fund operations each month, that information did not include revenues and the Board did not receive similar information for the general fund.

Many of these deficiencies occurred because the bookkeeper was unfamiliar with the Town's financial accounting software. Had the annual audit of the Supervisor's books been performed as previously discussed, these deficiencies might have been detected and corrected. With complete, accurate and timely financial information, the Board could make more informed financial decisions.

The 2018 general ledger was significantly incomplete, missing complete months of transactions and other significant transactions.

Town Officials Did Not File Required AUDs and Tax Cap Forms

Due to the incomplete and inaccurate records, Town officials were unable to file the AUDs for 2017 through 2019.⁸ In addition, Town officials did not file the annual tax cap form with OSC for the 2019 and 2020 real property tax levies. Neither the Supervisor nor the bookkeeper were aware of the responsibility to file the AUDs and tax cap forms. Although some of the current Board members had approved AUD filings in previous years, the reports were not filed for 2017 through 2019.

Because Town officials did not file tax cap forms, the Board was unaware that the 2019 levy significantly exceeded the cap and did not pass the required local law to override the cap. Although the Board reduced the levy in 2020, it did not reduce the levy by the appropriate amount to stay within the cap.

As a result of exceeding the cap in 2019, the tax levy exceeded the cap in 2020. Further, the failure to file AUDs could affect officials' ability to monitor financial affairs and make sound financial decisions.

What Do We Recommend?

The Supervisor should:

3. Maintain, or ensure the bookkeeper maintains, complete, accurate and timely accounting records and reports.
4. File AUDs and tax cap forms, or cause them to be filed, in a timely manner.
5. Ensure accurate and timely bank reconciliations are prepared and reviewed by a separate Town official periodically.

The Board should:

6. Provide Town employees with training, which is available through OSC and can be accessed on our website at www.osc.state.ny.us/local-government/academy.
7. Improve its understanding of its fiscal oversight role by reviewing publications such as *Information for Town Officials* (www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/ito.pdf) and *Fiscal Oversight Responsibilities of the Governing Board* (www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf) on our website.

⁸ As of the end of our fieldwork, the Board had not requested a filing extension for the 2019 AUD filing.

Appendix A: Response From Town Officials

Town of Decatur
104 County Highway 37
Worcester, NY 12197

To the Office of the State Comptrollers

I would like to thank the auditors for their professional and informative help. You have a great team. Being new to this type of oversight as town supervisor I had little knowledge and many short comings on how towns are run. As time has gone on, with the help of AOT and the state comp. office I feel we have gotten better but with room for much improvement. Before the audit was complete we as a town started to address some of the things that came up in the audit.

1 Bookkeeping/ we will be working with someone from Cobleskill who has great knowledge in Gov. accounting.

2 There were a handful of payments that were not preapproved by the board. After discussion with the board I feel this is taken care of by oversight.

3 Two board members have volunteered to do the audit of the supervisor's records annually .

As we continue to address other issues moving forward we will keep you abreast of our progress.

Thank You

Paul H Strenn

Decatur Town Supervisor

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objectives⁹ and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and the bookkeeper and reviewed Board minutes to obtain an understanding of controls over the disbursement process and the condition of financial records and reports.
- We reviewed all 58 non-payroll check disbursements totaling \$169,471 cleared during the months of February 2018 and September 2019. We compared the canceled check images to Board-approved abstracts and assessed whether they were adequately supported and for proper Town purposes.
- We reviewed bank statements and accounting records to identify and evaluate any voided checks and/or gaps in check sequences to determine whether there were any significant discrepancies.
- We selected 26 non-payroll check disbursements totaling \$16,396 from canceled check images provided by the bank during our audit period to assess whether the claims were for proper Town purposes. We used our professional judgment to select a sample that included higher risk claims for services that could have been provided to individuals instead of the Town.
- We assessed the accuracy of the December 2019 book balances by identifying any outstanding transactions from the subsequent month's bank statement and comparing the calculated book balance to the general ledger book balance.
- To determine the accuracy of the December 2018 and December 2019 monthly reports, we compared them to bank statements, bank deposit compositions, Board-approved abstracts, payroll reports, invoices and a confirmation of County payments made to the Town.
- We obtained copies of annual general ledger reports and assessed their completeness and accuracy.
- We assessed the timeliness of AUD filings for 2017, 2018 and 2019 as of the end of audit fieldwork.
- We assessed the timeliness of annual tax cap form filings for the 2019 and 2020 real property tax levies and calculated the amount the levies exceeded the tax cap for both years.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan

⁹ We also issued a separate audit report, *Town of Decatur – Town Clerk (2020M-58)*.

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.

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.

The Board has a responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided 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 the CAP available for public review in the Town Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

BINGHAMTON REGIONAL OFFICE – Ann C. Singer, Chief Examiner

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel (607) 721-8306 • Fax (607) 721-8313 • Email: Muni-Binghamton@osc.ny.gov

Serving: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Sullivan, Tioga, Tompkins counties



Like us on Facebook at facebook.com/nyscomptroller

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)