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March 2023

Jack Thompson, Town Supervisor
Members of the Town Board
Town of Addison
21 Main Street
Addison, NY 14801

Report Number: 2019M-3-F

Dear Town Supervisor Thompson and Members of the Town Board:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. The Office also works to develop and promote short-term and long-term strategies to enable and encourage town officials to reduce costs, improve service delivery and to account for and protect their town's assets. In accordance with these objectives, we conducted an audit of the Town of Addison (Town) to assess the supervisor's fiscal responsibilities of the Town. As a result of our audit, we issued a report, dated April 2019, identifying certain conditions and opportunities for Town management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the Town on December 16, 2022, to review progress in implementing our recommendations. Our follow-up review was limited to interviews with Town personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, the Town has made progress implementing corrective action. Of the 16 audit recommendations, 10 recommendations were fully implemented, three recommendations were partially implemented, two recommendations were not implemented and one recommendation was no longer applicable.

Recommendation 1 – Collection, Disbursement and Custody of Town Funds

The Town Supervisor (Supervisor) should collect, disburse and maintain custody of all Town funds in accordance with Board policies and procedures and Town Law.

Status of Corrective Action: Fully Implemented

Observations/Findings: Through observation and discussion with Town officials, we found the bookkeeper performed all of the Supervisor's financial responsibility under his direction and oversight. For example, during our review of the September and October 2022 bank statements with canceled check images and deposit slips, bank reconciliations and the October 2022 abstract (listing of approved claims) and vouchers (i.e., claims), we found the Supervisor reviewed vouchers, reviewed and signed checks, and reviewed bank deposits, transfers and reconciliations, which were prepared by the bookkeeper. Additionally, the Supervisor collected the mail and reviewed deposits before the bookkeeper deposited the funds in the bank. Finally, the Supervisor had access to the Town's bank accounts via online banking and reviewed transactions.

Recommendation 2 – Oversight of Bookkeeper

The Supervisor should provide proper oversight of the bookkeeper, including ending the practice of accessing the Town Clerk's and Justice's bank accounts.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Town Supervisor provided proper oversight of the bookkeeper by reviewing monthly financial reports, bank statements, transfers, reconciliations and vouchers. As discussed in Recommendation 1, the Supervisor signed checks after Board approval of the vouchers. We reviewed the November 2022 payroll reports and found the Supervisor completed a certification for each payroll reviewed. The Supervisor also reviewed and verified deposits and revenues to the bank statements monthly. Furthermore, the bookkeeper requested that her access to the Town Clerk's and Justice's bank accounts was removed, and the Supervisor signed the bank's request form to remove the access. We verified access was removed by reviewing the bank accounts listed in the bank agreement and through the bank's online banking portal settings.

Recommendation 3 – Supporting Documentation

The Supervisor should reconcile supporting documentation to collections deposited, recorded in the accounting system or included on the monthly reports.

Status of Corrective Action: Fully Implemented

Observations/Findings: Prior to making deposits, the bookkeeper and Town Clerk made copies of any checks received by the Town for the Supervisor to review along with the carbon-copied deposit slip. The Supervisor reviewed the deposits before they were taken to the bank and confirmed the deposits were made when he reviewed the bank reconciliations, which we confirmed during our review of the September and October 2022 bank statements, deposit slips and reconciliations.

Recommendation 4 – Warrant and Payroll Certification Authorization

The Supervisor should compare disbursements via Automatic Clearing House (ACH) debits, online bill payments or debit card payments to warrants and certified payrolls and authorize them prior to payment.

Status of Corrective Action: Fully Implemented

Observations/Findings: The majority of the Town's disbursements were paid by check after the Board approved the vouchers. The Supervisor and bookkeeper stated that all ACH debits were included on a voucher and approved by the Board prior to the transactions being initiated. The two debit card transactions each month were not included on a voucher but were automatic payments for the time clock and Town's website maintenance. The Supervisor verified the appropriateness of these transactions when he reviewed the bank reconciliations. We reviewed and verified that eight ACH transactions initiated in October 2022 totaling \$1,592 were included on the October 2022 abstract, had an accompanying voucher that was signed and dated by the Board and were initiated after Board approval.

Recommendation 5 – Supporting Documentation for ACH Debits

The Supervisor should ensure the bookkeeper prints or maintains documentation related to any ACH debits.

Status of Corrective Action: Fully Implemented

Observations/Findings: As indicated in Recommendation 4, ACH transactions were documented with a voucher. Vouchers were reviewed and signed by the Supervisor and Board prior to the bookkeeper initiating the ACH debit, which we verified through our comparison of the approved voucher date and bank statement transaction date.

Recommendation 6 – Blank Check Stock

The Supervisor should maintain custody of his blank check stock and review canceled check images and bank transfers to verify that the checks that clear the bank or ACH debits are for proper Town purposes.

Status of Corrective Action: Partially Implemented

Observations/Findings: Through discussion with Town officials, we found pre-numbered check stock was maintained at the bookkeeper's residence rather than secured in the Town office because the bookkeeper primarily performed her duties from her residence. As noted in Recommendation 1, the Supervisor reviewed and signed checks after the Board approved the vouchers for payment and ensured the checks that cleared the bank were for proper Town purposes when he reviewed the bank statements, transfers and reconciliations.

Recommendation 7 – Town Financial Data

The Supervisor should ensure that all Town financial data is located on the Town's computers, protected and safeguarded and that data located on the bookkeeper's personal computer is removed. Any data located on a computer that is not owned by the Town should be removed.

Status of Corrective Action: Fully Implemented

Observations/Findings: Through discussion with Town officials and observation of the bookkeeper's login and logoff procedures, the bookkeeper used a Town-issued laptop to record financial transactions in a computerized accounting program and performed online banking transactions in a secure manner.

Recommendation 8 – Dedicated Computer

The Supervisor should use a dedicated computer for online banking transactions.

Status of Corrective Action: Not Applicable – The State Comptroller's Office no longer recommends as a best practice that a dedicated computer is used for online transactions. In addition, as discussed in Recommendation 9, additional controls and procedures that officials have implemented have mitigated certain risks with online banking.

Recommendation 9 – Online Banking Notifications and Security Measures

The Supervisor should enable notifications and other security measures available from the banks, including secondary approvals and email notifications every time an online transaction occurs.

Status of Corrective Action: Fully Implemented

Observations/Findings: As discussed in Recommendation 7, the Supervisor and bookkeeper used multifactor authentication for online banking transactions. In addition, the bookkeeper requested that the bank provide secondary approvals and notifications for online transactions, which we confirmed after reviewing the requested and updated bank agreement.

Recommendation 10 – Accounting Records

The Supervisor should maintain adequate accounting records on a modified accrual basis that account for all cash receipts and disbursement activities on a fund basis.

Status of Corrective Action: Partially Implemented

Observations/Findings: Although the bookkeeper accounted for cash receipt and disbursement activities on a fund basis, the computerized accounting records were not maintained on the modified accrual basis of accounting. We reviewed the November 30, 2022 trial balance and determined the bookkeeper used the cash basis of accounting as indicated by the lack of receivable and payable accounts. While the accounting records have improved since our last audit, both the bookkeeper and Supervisor would benefit from appropriate training on this topic. The State Comptroller's Office periodically provides training on this topic. Additional information on this can be found at: <https://www.osc.state.ny.us/local-government/academy/osc-government-accounting-schools>.

Recommendation 11 – Monthly Revenue and Expenditure Reports

The Supervisor should ensure that reports presented to the Board do not commingle revenues and expenditures from different funds together.

Status of Corrective Action: Fully Implemented

Observations/Findings: We reviewed the November 30, 2022 trial balance and the reports provided to the Board at the December 19, 2022 Board meeting and found the bookkeeper provided the Supervisor and Board with monthly budget-to-actual reports by fund for revenues and expenditures.

Recommendation 12 – Bank Reconciliations

The Supervisor should ensure that the bookkeeper provides the reconciliations and bank statements to him [the Supervisor] or the Board for review.

Status of Corrective Action: Fully Implemented

Observations/Findings: We reviewed the September and October 2022 bank statements and reconciliations prepared by the bookkeeper and provided to the Supervisor for his review.

Recommendation 13 – Adjusting and Correcting Journal Entries

The Supervisor should ensure that the bookkeeper provides any adjusting/correcting entries to him [the Supervisor] for approval.

Status of Corrective Action: Fully Implemented

Observations/Findings: Town officials stated that the bookkeeper was responsible for making adjusting and correcting entries. The bookkeeper explained that when she made an adjusting entry, she would notify the Supervisor first, usually by a phone call or text message and then all adjustments went to the Board for approval. Once the adjustment was made, the bookkeeper provided the Supervisor with updated reports to confirm the adjustment was made. We reviewed the reports presented to the Board at the December 19, 2022 Board meeting for approval and found that adjustments were included.

Recommendation 14 – Written Policies and Procedures

The Board should establish written policies and procedures for cash receipts and disbursements and online banking that address the duties, procedures, records and oversight required to safeguard Town funds.

Status of Corrective Action: Not Implemented

Observations/Findings: The Supervisor stated that the Board had not established written policies or procedures for cash receipts and disbursements and online banking that addressed the duties, procedures, records and oversight required to safeguard Town funds. He did not have an explanation for why the policies and procedures were not established.

Recommendation 15 – Online Banking Agreement

The Board should ensure that the written agreement with the bank is sufficient and that those who perform online banking transactions are familiar with its content. The banking agreement should address online bill payment through the online banking website, list all accounts used for transfers and set limits for the number and amount of transactions allowed and authorize ACH debits and other types of transactions that the bookkeeper is allowed to perform. In addition, the agreement should limit administrative user and functions to the Supervisor.

Status of Corrective Action: Partially Implemented

Observations/Findings: While the Town had an online banking agreement, the Supervisor did not have a copy of the agreement. Upon our request, the Supervisor provided an ACH Originator Agreement and Business Online User Agreement that identified the accounts used for online transactions, types of transactions allowed, dollar limits for these transactions and security procedures. However, the agreement was outdated because it listed the former bookkeeper as an administrator. Upon our review, the Supervisor and bookkeeper went to the bank to make the necessary changes and provided an updated agreement for our review.

Recommendation 16 – Cybersecurity Training

The Board should provide cybersecurity awareness training.

Status of Corrective Action: Not Implemented

Observations/Findings: The Supervisor stated that the Town’s insurance company provided four mandatory training courses every year and he thought that a cybersecurity course was one of those offered. However, after he reviewed the bookkeeper’s emails that notified her of required trainings, the Supervisor realized that none of the courses offered were related to cybersecurity.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage Town officials to continue their efforts to fully implement our recommended improvements.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Edward V. Grant Jr., Chief of Municipal Audits of our Rochester Regional Office, at (585) 454-2460.

Sincerely,

Elliott Auerbach
Deputy Comptroller