

Town of Davenport

Transparency

AUGUST 2018



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

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Report Highlights

Town of Davenport

Audit Objective

Determine whether the Town's financial operations are transparent to the Board and taxpayers.

Key Findings

- The Supervisor did not maintain sufficient financial records to provide the Board with the necessary information to assess the Town's financial condition and file the annual report with OSC.
- The Clerk did not maintain a complete and up-to-date record of the Board's meetings.
- The Board did not conduct a thorough and deliberate audit of claims.

Key Recommendations

- The Supervisor should maintain adequate records so that he can provide sufficient reports to the Board and file the required annual report with OSC.
- The Clerk should maintain timely and more detailed minutes and submit them to the Board for its approval.
- The Board should conduct a thorough and deliberate audit of claims to identify any irregularities or deficiencies in the claims submitted for payment.

Town officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action. Appendix B includes our comment on issues that were raised in the Town's response letter.

Background

The Town of Davenport (Town) is located in Delaware County and governed by an elected Town Board (Board) composed of four Board members and a Supervisor. The Supervisor is the Town's chief executive and chief fiscal officer. The Supervisor hired a bookkeeper who handles the day-to-day financial operations. The elected Town Clerk (Clerk) is responsible for preparing the monthly abstracts and maintaining Board meeting minutes.

Quick Facts

Population	2,965
2018 Appropriations	\$1.3 million

Audit Period

January 1, 2016 – December 27, 2017

Transparency

How Does the Board Ensure Financial Operations Are Transparent?

The board is responsible for managing and overseeing the town's financial operations, including providing adequate information to the public regarding the town's financial condition and safeguarding its resources from theft or abuse. Transparency is important for public participation and accountability and allows taxpayers to provide feedback on the quality and adequacy of services as well as decisions that impact the town's long-term financial stability.

To accomplish this objective, the board should require the supervisor to periodically submit reports of the town's financial condition and file the required annual financial reports (AUD) with the Office of the State Comptroller (OSC). In addition, the board should ensure it is auditing and approving all claims for payment and providing for an annual audit of the supervisor's records. Finally, the board should approve the previous month's meeting minutes to ensure the clerk is maintaining an accurate and complete description of board actions and decisions. For example, the minutes should document the details of resolutions passed, including the number and dollar amount of claims presented and approved on the abstract.

Financial Condition Is Not Transparent

The Town's financial condition is not transparent to the Board and taxpayers because the Supervisor does not maintain adequate financial records. The Supervisor has a computer accounting system for recording transactions by account code in order to print budget-to-actual reports for the Board's review. However, he does not maintain the Town's fund balance, including reserves and does not record bank transfers; therefore, the cash balances are not accurate. As a result, the financial position reports in the accounting software cannot be used.

Instead, the Supervisor essentially maintains a checkbook that documents each deposit and disbursement with a running cash balance. However, this record does not document which revenue or expenditure code was used for the transaction and therefore, cannot be easily used to report revenues and expenditures, loans to other funds and fund balance. Furthermore, as of December 31, 2017, there is a total of \$250,000 in two separate bank accounts not allocated to a Town fund. The Supervisor provided us six manual ledgers¹ to support the allocation of this \$250,000. These ledgers were not kept up-to-date and in total did not agree to the bank balances in question. Furthermore, some of the ledgers indicated that the money was designated to different bank accounts. The Supervisor was unable to provide us with additional support allocating the money to specific Town funds. Therefore, we were unable to determine whether the balances in these ledgers were included in the \$250,000 or included in other bank accounts.

1 These ledgers were for three reserve funds - the pipeline, transfer station and lighting fund.

Because the Supervisor's records are insufficient, do not include all financial information, and do not reconcile to each other, he is unable to provide the Board with adequate financial reports and cannot easily compile the necessary information to file the required annual financial reports with OSC.² Therefore, no one, including the Supervisor, Board and taxpayers knows the Town's actual financial position.

We verified that the manual records reconciled to the bank statements. However, we could not reconcile these manual records to the computer accounting system records. We compared five months of general and highway fund transactions and identified \$4,600 of revenues, excluding monthly interest payments from the bank, which were recorded in the manual ledger, but not recorded in the accounting system.

We estimated the Town's financial condition by comparing year-end reconciled cash balances to the ensuing year's budgeted appropriations. The general fund has \$147,000, or 38 percent, and the highway fund has \$63,500, or 7 percent, of the ensuing year's budgeted appropriations. These figures do not include the \$250,000 in unallocated funds. Therefore, these percentages could be higher if the money is allocated to these two funds. For example, if the entire \$250,000 was allocated to the general fund, fund balance would increase to 102 percent of the ensuing year's appropriations. If the \$250,000 was allocated to the highway fund, fund balance would increase to 35 percent of the ensuing year's appropriations.

Without proper accounting records, the Supervisor cannot provide the Board and taxpayers with adequate financial information to ensure transparency or facilitate decision making.

Board Meeting Minutes Are Not Complete and Timely

The Board meeting minutes do not provide transparency because they do not contain sufficient detail of the Town's decisions and were not timely transcribed into the minute's book. In addition, the abstracts (which represent disbursements made) presented to the Board and taxpayers at the Board meetings were altered by the Supervisor after the Board's approval and he did not submit these changes to the Board at the next meeting.

We reviewed all the minutes in our audit period and found that the Clerk does not document: that the prior meeting's minutes were read; the detail of Board resolutions that were adopted; reports of department heads, including the Supervisor's financial reports;³ and the number and dollar value of claims audited

2 The Supervisor last filed the AUD with OSC in 2009.

3 OSC noted only two occasions where the Supervisor's budget-to-actual reports were mentioned in the minutes. No other meeting minutes identify whether reports were presented to the Board.

and approved per the abstract. In addition, as of December 2017, the March through November 2017 minutes were not documented in the prescribed minute's book.

The Board does not review and approve the prior month's minutes to ensure what the Clerk documented includes sufficient information to provide transparency to taxpayers or that they were an accurate depiction of Board proceedings.

The Board Is Not Conducting Proper Audits

We tested a sample of 142 disbursements totaling \$599,024 and found they were all on the abstracts and appropriate Town expenditures.⁴ However, there were numerous instances where employee reimbursements were not listed on the abstract with the correct name. Instead, the abstract listed the vendor's name that the employee purchased the items from. We also noticed that the dollar amounts on the abstracts were often changed and the Supervisor or Clerk did not submit these changes to the Board for approval. Therefore, we scanned abstracts for the audit period and found the Supervisor or Clerk increased abstract amounts by \$33,000 and decreased abstract amounts by \$6,600. These changes were either to add additional invoices to the vendor check amounts, remove sales tax or correct the amount the Clerk documented on the abstract to be paid. We tested three of the changes increasing the abstract amounts by a total of \$20,300 and found the additional invoices to be appropriate Town expenditures. We also found the Supervisor appropriately voided payments on 23 of the 46 abstracts reviewed because the invoice was already included in the previous month's abstract.

The Board did not adequately audit claims because some of the abstract changes should have been detected during its audit, such as erroneously being charged sales tax or amounts to be paid on the abstract did not match the supporting claims voucher packets attached. In addition, the Board is not performing its required annual audit of the Supervisor's records, which could have detected the unauthorized disbursements and accounting records deficiencies.

Town officials told us they were not aware of their respective responsibilities. Without adequate oversight, the Board cannot monitor the Town's financial condition, ensure financial transactions are appropriate or provide transparency to taxpayers.

⁴ Of the amount tested, 11 payments totaling \$378,000 were for pass-through grants which were not required to be approved through the abstract process.

What Do We Recommend?

The Board should:

1. Create and adopt policies or procedures to ensure:
 - All required disbursements are audited and approved.
 - Financial position reports are received periodically.
 - The AUD is filed on a timely basis.
2. Audit the Supervisor's records and reports on an annual basis.
3. Ensure the Clerk keeps detailed, up-to-date minutes.
4. Receive training regarding its responsibilities.

The Supervisor should:

5. Maintain adequate records of the Town's financial position and present reports of fund balance to the Board, at least annually.
6. Determine the origin of the money in the separate bank accounts and report the money in the appropriate fund or funds.
7. Submit all required disbursements, and any corrections to disbursements, to the Board for audit and approval.
8. File the AUD in a timely manner.
9. Receive training regarding financial records and reports.

The Clerk should:

10. Maintain minutes in the prescribed minute's book which include sufficient detail to provide transparency to taxpayers and submit the minutes to the Board at the next meeting for their approval.

Appendix A: Response From Town Officials

Town of Davenport, Delaware County

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Dennis J. Valente Supervisor

August 16, 2018

Audit Reply and Corrective Action Plan

The Davenport Board contends that the Town's financial records are transparent. The examiner and the Controller's Office are wholly dependent on computer records. The Supervisor, bookkeeper, and Board are more reliant on paper records. This is a generational issue; Town records have been paper for 200 years. The young examiner has been using computers his entire life. The reference to our ledger sheets as "essentially maintains a checkbook" indicates a lack of regard for time tested paper records.

See
Note 1
Page 8

All funds are recorded on ledger paper with notes where it might help to give necessary detail. All bank transfers and deposits are photo copied and kept with the related reconciled bank statements. The Supervisor acknowledges more attention needs to be paid to the unallocated fund balance. The six dedicated funds are up to date with accurate balances and records of transactions. This is how the Board was, and continues to be, able to keep up with the equipment, building, and retirement challenges for the past 13 years.

See
Note 2
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The Supervisor recalls that when he was first a Councilman in 2000 email was not required and used only occasionally. His first term as Supervisor was in 2006 and there was only one computer in Town Hall, now there are nine. Software cost thousands of dollars a year. State agencies can afford to keep up to date and maintain IT personal, small Towns are struggling to keep up with new technology demands. As the State increases its computer facilitated capacity to process data new reporting requirements are added on annually.

Dennis J. Valente

Corrective Action:

- The Town is conducting a search, and intends to hire, a bookkeeper that can convert all Town financial records to a digital format. This bookkeeper will be tasked with the AUD and other reports. The budget allotment for this service will have to be located in current appropriations and some allowable new levies dedicated to this purpose.
- Changes to the abstract will be dated and initialed when made to avoid unfounded assumptions.
- Seek updated bulletins from OSC as to Audit procedures
- Town website is under construction and will include a prominent placement for all Board minutes. Town Board will review and approve all minutes at regular meetings.
- Develop a proactive search for a new generation of elected Officers. This will require a serious review of compensation rates.

Dennis J. Valente

Appendix B: OSC Comments on the Town's Response

Note 1

The format of the records was not our concern. The paper records were not complete and accurate as they did not include ledgers that documented revenues and expenditures by account code or the amount of fund balance in each fund. Furthermore, the Supervisor was unable to file the required annual financial reports with OSC due to the inadequacies of these records.

Note 2

Because we were unable to reconcile these ledgers to a bank account, we could not verify the Supervisor's assertion that these ledger balances were accurate. As stated in the report, many ledgers were not kept up-to-date.

Appendix C: 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 objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials to obtain an understanding of the Town's financial operations.
- We reviewed the Supervisor's records to gain an understanding of what data they provide.
- We reconciled the Supervisor's manual records to the bank statements.
- We compared the Supervisor's manual records to the accounting system to document variances.
- We used the reconciled bank balances to calculate cash as a percentage of the ensuing year's budget.
- We scanned minutes to determine whether the Clerk documents adequate information to provide transparency to taxpayers.
- We sampled disbursements to determine whether they were Board approved.
- We scanned abstracts to document how many changes were made after the abstracts were approved by the Board.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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.

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 Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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