

Town of Palermo

Timeliness of the Supervisor's Records and Reports

AUGUST 2020



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

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Report Highlights

Town of Palermo

Audit Objective

Determine whether the Town Supervisor maintained up-to-date accounting records and reports.

Key Findings

The Town Supervisor:

- Did not maintain up-to-date records and reports.
- Completed the 2018 and 2019 books and records after we started the audit on January 7, 2020.
- Did not make deposits and maintain accounting records in a timely manner.
- Did not file the Town's 2016, 2017 and 2018 annual update documents (AUDs), which are required annual financial reports, with our office in a timely manner.

Key Recommendations

- Ensure the financial records and reports are complete, accurate and up-to-date and deposit funds received in a timely manner.
- Complete and submit AUDs to our office in a timely manner.
- Conduct an annual audit of the Town Supervisor's records, or engage an independent accountant to conduct the audit.

Town officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Town of Palermo (Town) is located in Oswego County.

The Town is governed by an elected Town Board (Board), which includes the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial operations. The Supervisor serves as the Town's chief executive and chief fiscal officer.

A part-time bookkeeper assists the Supervisor with preparing receipts and bank deposits and processing check disbursements.

Quick Facts

Population	3,664
2019 Total Expenditures	\$1.9 million
2019 Total Revenues	\$2.1 million
2020 Budgeted Appropriations	\$2.4 million

Audit Period

January 1, 2019 – December 31, 2019. We extended our audit period back to review the timeliness of the Town's AUD submissions for 2016 through 2018.

Timeliness of the Supervisor's Records and Reports

What Are the Supervisor's Financial Accounting and Reporting Responsibilities?

The Supervisor is responsible for maintaining the Town's financial records. The accounting records should be up-to-date and should document assets, liabilities, fund equity and results of operations (revenues and expenditures) for each Town fund. The Supervisor should maintain an accurate and complete account of all funds received and disbursed and deposit Town funds within 10 days after receipt.¹

The Supervisor is also responsible for providing monthly reports to the Board (monthly Board reports) summarizing financial activities. These reports should include a detailed statement of all money received and disbursed during the month.² Good business practices dictate that these reports also contain, at a minimum, reconciled cash balances for each Town fund and year-to-date budget-to-actual comparisons of revenues and expenditures. Complete, accurate and timely financial information is essential for a board to make sound financial decisions.

New York State Town Law³ requires the Supervisor to submit an annual accounting to the Board on or before January 20 for all money received and disbursed during the preceding year, unless an independent public accountant has been hired to audit the Supervisor's records within 60 days after the close of the fiscal year. As part of the annual accounting, the Supervisor should provide the Board with all supporting books, records, receipts, warrants, vouchers and cancelled checks or check images.

Furthermore, New York State General Municipal Law (GML) requires the Supervisor to file an annual update document (AUD), which is the annual financial report, with the New York Office of the State Comptroller (OSC) within 60 days of the end of the Town's fiscal year (December 31), unless an extension is granted.⁴ The AUD is an important fiscal tool that provides the Board with the financial information necessary to monitor the Town's operations and other interested parties with a complete summary of the Town's financial activities.

The Supervisor's Records and Reports Were Not Timely

The Supervisor's bookkeeper prepared cash receipts for deposit, and the Supervisor made the deposits and recorded the cash receipts in a spreadsheet.

Complete, accurate and timely financial information is essential for a board to make sound financial decisions.

¹ Town Law, Section 29

² Town Law, Section 125(2). A copy of the report also should be filed with the Town Clerk.

³ Town Law, Section 123

⁴ General Municipal Law, Section 30. The 60-day filing requirement applies to towns with a population of less than 5,000. 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.

Town officials used accounting software to prepare check disbursements and a third-party provider to process payroll.

The Town Clerk entered expenditures into a spreadsheet that compares budget appropriations to actual year-to-date expenditures and provided it to the Board monthly. The Supervisor recorded all this activity in a manual general ledger and subsidiary revenue and expenditure ledgers.

When we first contacted the Supervisor in December 2019, she told us her records were not current because of personal matters and that she intended to bring them up-to-date before our audit. We began our audit on January 7, 2020. At that time, the Supervisor provided us with access to some records for 2018 and 2019 (e.g., payrolls, claims, check registers and bank statements), but the records did not include revenue spreadsheets or the general and subsidiary ledgers.

The Supervisor told us she finished the fiscal year 2018 ledgers, but needed to retain them to carry balances forward to complete 2019. She gave us the 2018 general and subsidiary ledgers on January 14, 2020, the 2019 general and subsidiary ledgers on January 21, 2020 and the revenue spreadsheet for 2018 shortly thereafter. We did not receive the 2019 revenue spreadsheet until February 26, 2020.

Once we were provided with all of the 2019 accounting records, we reviewed them and found they were up-to-date. We verified that the adjusted bank balances agreed with the general ledger cash balances. We also examined a sample of source documents for receipts and disbursements and found they were all entered in the ledgers.⁵

Untimely Deposits – During our review of the 2019 accounting records, we noticed that cash receipts were not always deposited within 10 days after receipt or recorded in a timely manner. We reviewed the Town Clerk’s and Town Justices’ monthly reports for 2019,⁶ traced them to the Supervisor’s bank deposits and accounting records and found the Supervisor typically made deposits about 35 days after receipt, on average.

Also, the September cash receipts totaling \$4,487 were not deposited until December (three months later). When funds are not deposited in a timely manner, it increases the risk that the funds could be lost, stolen or misappropriated.

The Supervisor typically recorded revenues at the end of each month. However, November receipts totaling \$3,936 were not recorded until December 31, 2019.

When we first contacted the Supervisor in December 2019, she told us her records were not current...

⁵ Refer to Appendix B for further information on our sample selection.

⁶ Cash receipts collections for these months totaled \$1.5 million. Refer to Appendix B for further information on our sample selection. The Town Clerk and Justices reported their collections on a monthly basis and remitted a check to the Supervisor. The Town Clerk also served as the Town’s tax collector.

When transactions are not entered into the accounting records in a timely fashion, the Supervisor cannot report accurate financial information to the Board, and the Board will not have reliable information on which to base management decisions. We also traced total 2019 disbursements from bank statements to the Supervisor's records and did not find any discrepancies.⁷

Missing Reports – We reviewed the Supervisor's monthly Board reports to determine whether they were sufficient to monitor financial affairs. The reports included abstracts showing Town disbursements and a budget-to-actual report for expenditures each month. However, the abstracts did not include reports showing budget-to-actual results for revenues throughout the year.

In addition, the Supervisor did not routinely provide the Board with reports showing cash receipts and disbursements each month or cash balances for each fund. The Supervisor was unable to prepare these reports because she did not maintain timely accounting records.

We compared the December 2019 budget-to-actual report for expenditures to the general ledger and found that most (98 percent), but not all expenditures, were included on the reports. For example, the budget status reports did not include \$12,992 of payroll fees and \$11,048 of snow removal personal services costs.

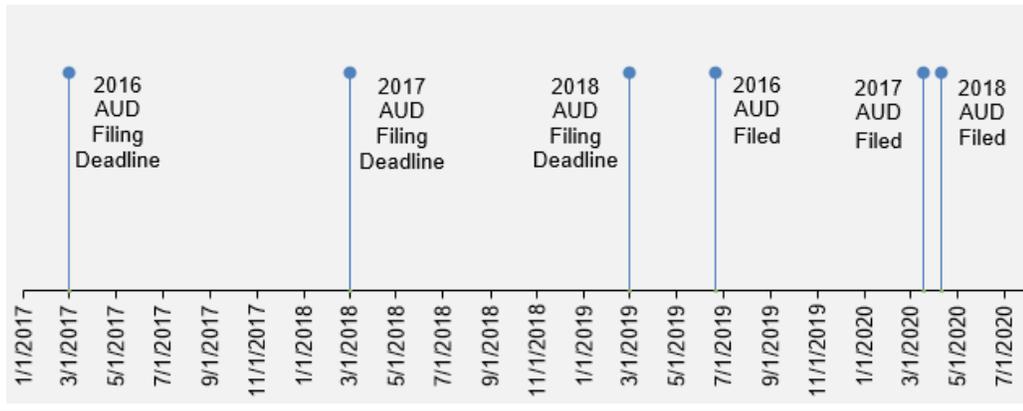
Timely, sufficient and accurate accounting records are essential for the preparation of appropriate financial reports that help the Board monitor and manage financial operations and assess and make decisions regarding the Town's financial condition. The lack of timely and accurate financial information could lead to errors going undetected and uncorrected and could also hamper the Board's ability to make sound financial decisions.

Annual Update Document (AUD) – The Supervisor was 841 days late in filing the AUD for the 2016 fiscal year. After our fieldwork ended, the Supervisor filed the 2017 AUD on March 17, 2020 (747 days late) and the 2018 AUD on April 10, 2020 (406 days late) (Figure 1).

⁷ See supra, note 5.

FIGURE 1

AUD Filing Dates



Without timely and accurate AUDs, Town officials, taxpayers and other interested parties will be unable to monitor and assess the Town’s financial operations and financial condition.

Annual Audit – An annual audit of the Supervisor’s records and reports helps the Board fulfill its fiscal oversight responsibilities by providing it with an opportunity to assess the reliability of the Town’s records and supporting documents. It also serves to identify conditions that need improvement and can provide useful information to help the Board monitor the Town’s financial operations.

Although the Board annually audited the Town’s Justice Court, it was unaware that it should also audit the Supervisor’s books and records. The Supervisor told us she did not present her 2018 records to the Board for an annual audit, and Board members did not request to review them.

The Board indicated that it will annually audit the Supervisor’s records going forward. The Board budgeted an appropriation of \$20,000 in the 2020 budget to hire a certified public accounting firm to conduct an independent audit of the 2019 records. The Supervisor told us this audit will enable the Town to be eligible for certain capital project funding. That service began while we were on site.

Had the Board conducted the required audits, it would have noticed that the accounting records were not up-to-date, deposits were late and the AUD had not been filed. Because the Board did not conduct or contract for an annual audit, it could not fulfill its fiscal oversight responsibilities of assessing the Town’s books, records and supporting documentation and monitoring the performance of Town officers and employees who are entrusted with recordkeeping and other financial responsibilities.

What Do We Recommend?

The Supervisor should:

1. Ensure the financial records and reports are complete, accurate and up-to-date.
2. Deposit funds received no later than 10 days after receipt.
3. Submit monthly reports to the Board that include a detailed accounting of all funds received and disbursed, cash balances and complete budget-to-actual comparisons of revenues and expenditures for each Town fund.
4. Complete and submit the Town's AUD to OSC within the required time limits.

The Board should:

5. Request, and ensure it receives, appropriate financial reports to monitor the Town's financial operations.
6. Conduct an annual audit of the Supervisor's records, or engage an independent accountant to conduct the audit. For guidance on conducting audits, the Board should refer to our publication titled Local Government Management Guide – Fiscal Oversight Responsibilities of the Governing Board, which is available at: https://www.osc.state.ny.us/localgov/pubs/lgmng/fiscal_oversight.pdf

Appendix A: Response From Town Officials



Town of
Palermo
New York

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July 30, 2020

SYRACUSE REGIONAL OFFICE
██████████, Principal Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

Re: Town of Palermo – Audit 2020M-67

Dear ██████████,

The Town Board Town of Palermo in conjunction with the Town Supervisor, hereby acknowledges receipt of the State Comptrollers Audit Findings – Report of Examination 2020M-67.

The Town Board further acknowledges the findings and agrees with those findings. The Town Supervisor fully acknowledges lack of timeliness on completing the financial records and has discussed with the Board and the State Auditors the personal reasons behind that. The Board has thoroughly reviewed the draft report and accepts it in its entirety as accurate.

This audit response is also serving as the Corrective Action Plan (CAP). Below are the steps taken within the Corrective Action Plan to ensure compliance with the audit's recommendations. For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed.

The Supervisor shall take and has taken the following immediate actions in compliance with this Corrective Action Plan.

The Supervisor shall ensure that all financial records and reports are complete, accurate and up-to-date on an ongoing basis. The Supervisor shall submit monthly reports to the Board that include a detailed accounting of all funds received and disbursed, cash balances and complete budget-to-actual comparisons of revenues and expenditures for each town fund.

At this time the Supervisor has provided to the Board the following up to date records:

A. Completed and Filed 2019 AUD Report

In addition, all prior and up to date AUD Reports have been filed with the Town Clerks office and available for the public.

B. Opening Balances and General Ledger Balances for all accounts for the 2020 Fiscal Year.

C. Monthly Reporting of all accounts and balances for 2020 through June 30, 2020. (Most current reconciled bank statements to the general ledger.) July 31st bank statements are not yet available.

D. Monthly Revenue Reports in detail; receivables to budget comparison.

E. Monthly Disbursement Reports in detail; disbursements to budget comparison.

F. Copies of Bank Statements shall be provided upon request to any board member, but shall be reviewed monthly by the Deputy Supervisor and/or another designated board member to ensure accuracy and timeliness.

Going forward, the Supervisor shall provide to the board the preceding monthly reports at the monthly town board meetings. Copies of those reports shall be maintained for future auditing purposes.

Furthermore, all received funds shall be deposited no later than 10 days after receipt. If the Supervisor is unable to conduct such deposits, then the Town Board shall authorize the Deputy Supervisor and/or bookkeeper to act on her behalf for such transactions.

In further discussion, the Supervisor acknowledges that there are several updated Government Accounting Standards that the Comptroller's office is requiring and that the financial statements should be in accordance with GAAP. Statement 84 reporting requirements are effective for all fiscal years after December 2019. With the knowledge that the Town Supervisor is not a certified public accountant and with the knowledge of such government reporting standards; the Board acknowledges that they must seek the professional knowledge and assistance of a CPA firm.

To date the Town Board has taken the following immediate actions:

- A. Contracted with a Certified Public Accounting Firm to conduct an independent audit of the 2019 accounting records of all departments. That audit is currently in progress.
- B. The Board has requested the recommended appropriate reports to be submitted monthly at each town board meeting and those shall be entered into the record of the meetings and copies retained.
- C. Ongoing, the Board shall budget annually to engage the services of a CPA to complete the annual financial statement and/or AUD to meet the required Governmental Accounting Standards.
- D. In addition, the CPA firm will conduct an independent review of all departments and submit such review to the Board for compliance with the annual auditing requirements and filing.
- E. The Board will continue to monitor such findings, for recommendations and improvements on a regular ongoing basis.

At this time the Supervisor in conjunction with the Town Board and the Town Clerk's office is investigating accounting and records software updates that would be beneficial to the Board and the departments in maintaining budget revenue/disbursements on a daily basis. The current system, is a combination of several methods, it is the Board's plan to streamline this process into one complete electronic recordkeeping and bookkeeping system.

The Board has appointed a committee of the Supervisor, Town Clerk, Bookkeeper and the Deputy Supervisor to investigate such software and to develop a comprehensive update plan. The update of such system is planned for the fiscal year 2021 and shall be implemented in a timely manner to coincide with the start of the 2021 fiscal year and budget.

Furthermore, the Town Board Town of Palermo and the Town Supervisor acknowledges the seriousness of this situation and has taken the appropriate action at this time to ensure that all records are current. The additional assistance of a certified public accounting firm on an ongoing basis will assist in maintaining these records in a timelier manner as required.

We as a Town Board appreciate your assistance in completing this audit review and look forward to the future with a better understanding of the audit process. On behalf of the Town Board Town of Palermo,

Sincerely,

Patricia A. Redhead
Town Supervisor

Cc: [REDACTED]
Town Board Members

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

- We interviewed Town officials to gain an understanding of the Town's accounting, financial reporting and oversight practices.
- We reviewed the Supervisor's accounting records to determine completeness and timeliness.
- We used our professional judgement to select a sample of cash receipts totaling \$1,540,200 then traced them from source documents to bank deposits and the general and subsidiary revenue ledgers. We chose to include department cash receipts in our sample because they represented a significant amount of total revenues (72 percent).
- We traced all 2019 disbursements totaling \$1,926,780 from bank statements to the general ledger. We also traced a random sample of disbursements totaling \$137,251 (all disbursements made during November 2019) to the subsidiary expenditure ledgers.
- We compared the most recently completed bank reconciliations as of January 14, 2020 to the 2019 general ledger cash balances for all 10 Town bank accounts totaling \$1.2 million. We verified that the adjusted bank and book balances agreed.
- We compared accounting records to expenditure reports to determine whether those reports were complete. We compared the 2019 ledger to the December 2019 report because it contained a full year of activity.
- We assessed the timeliness of AUD filings for the 2016, 2017 and 2018 fiscal years.

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

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 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 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

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