



Town of Franklin

Financial Operations

Report of Examination

Period Covered:

January 1, 2012 — October 11, 2013

2014M-32



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
FINANCIAL OPERATIONS	5
Segregation of Duties	5
Accounting and Reporting	6
Annual Audit	7
Recommendations	8
APPENDIX A Response From Local Officials	9
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 Board 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 Franklin, entitled Financial Operations. 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*

Introduction

Background

The Town of Franklin (Town), located in Delaware County (County), is approximately 81 square miles and serves about 2,400 residents. The elected five-member Town Board (Board) is the legislative body responsible for managing Town operations, including maintaining sound financial condition. The Town Supervisor (Supervisor)¹ is a member of the Board and serves as the Town's chief executive officer and chief fiscal officer. The Supervisor appointed a bookkeeper to assist with his day-to-day accounting responsibilities.

The Town provides various services to its residents, including highway maintenance, snow removal and general government support. The Town's 2013 budget appropriations were \$1.6 million, funded primarily with real property taxes and State aid.

Objective

The objective of our audit was to review the Town's financial operations. Our audit addressed the following related question:

- Did the Supervisor meet his fundamental financial responsibilities?

Scope and Methodology

We examined the Town's financial operations for the period of January 1, 2012 through October 11, 2013. We expanded our audit period through October 31, 2013 to review financial reports and bank statements and extended our audit period back to 2008 to review financial trends.

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 B 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 plan to initiate corrective action.

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

¹ A new Supervisor was elected and began his term on January 1, 2014.

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 Town Board to make this plan available for public review in the Clerk's office.

Financial Operations

The Board is responsible for overseeing the Town's financial operations. The Supervisor, as the Town's chief fiscal officer, is responsible for ensuring that adequate internal controls are in place to safeguard Town resources and collecting and having custody of all Town money. The Supervisor is also responsible for paying Board-approved claims, making payroll disbursements and preparing and filing an annual financial report within time limits prescribed by law.² If the Supervisor assigns his recordkeeping duties to a bookkeeper, he must provide sufficient oversight to ensure cash receipts are deposited in a timely manner and that the records maintained are accurate, complete and timely. Finally, the Board is responsible for annually auditing, or having an independent public accountant audit, the Supervisor's records as required by law.

The Supervisor relied on the bookkeeper to perform most of the Town's financial duties without providing any oversight. The bookkeeper was solely responsible for receiving and disbursing Town money as well as recording and reporting the Town's financial activity. The bookkeeper prepared reports for the Board by summarizing monthly financial activity without ensuring that the reported balances were accurate and complete. Additionally, the Supervisor has not filed the required annual financial report with the Office of the State Comptroller (OSC) since 2008. Finally, the Board failed to audit the Supervisor's financial records, as required. As a result, the Board cannot effectively monitor the Town's fiscal affairs and there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

Segregation of Duties

The Supervisor's responsibilities include ensuring that financial duties are properly assigned so that one individual cannot perform all aspects of a financial transaction without implementing compensating controls such as independent reviews or additional supervisory oversight. All money the Town receives should be recorded and deposited as soon as possible, in accordance with statute.³ Further, the Supervisor is only authorized to disburse Town money after the Board audits and approves claims or for Town payrolls that are supported by records of

² General Municipal Law requires that the Supervisor file an annual financial report with OSC and the Town Clerk within 90 days from the close of its fiscal year. In the event Town officials anticipate missing the deadline, an extension can be requested allowing the Town up to 120 days to file the report.

³ Town Law requires that money received should be deposited in a Town bank account within ten days. However, daily deposits should be made if material amounts have been received.

time worked (for hourly employees) and approved wage and salary rates (for employees paid a fixed salary).

The bookkeeper collected, deposited, recorded, disbursed and reported all Town revenues and expenditures without any oversight. Due to the lack of segregation of the bookkeeper's duties, we reviewed ten receipts totaling more than \$74,000⁴ that were accurately recorded in the accounting records. However, we could not determine if these receipts were deposited intact or in a timely manner because the bookkeeper did not retain any copies of bank deposit slips.⁵ We also reviewed available documentation for three of these deposits totaling \$350 for building permit fees and found that they were deposited between 16 and 33 days after they were initially received.

We also reviewed 20 non-payroll disbursements made during our audit period⁶ and all payroll disbursements in 2012 for six Town employees to verify that these payments were accurately calculated and made for proper Town purposes.⁷ We also reviewed 1,605 canceled checks images⁸ for disbursements made during our audit period to determine if they were accurately recorded in the accounting records. Our review of these disbursements disclosed no material discrepancies.

The Supervisor told us he assigned all the financial duties to the bookkeeper because he was not familiar with basic accounting practices. However, when the bookkeeper's responsibilities include performing most aspects of the Town's financial transactions with no oversight or compensating controls and cash receipts are not deposited in a timely manner, there is an increased risk of recordkeeping errors or lost money due to errors or irregularities. Therefore, the Board has no assurance beyond the claims approval process that Town funds are only used for legitimate Town purposes. Further, neither the Supervisor nor the Board would be able to detect inappropriate activity in a timely manner.

Accounting and Reporting

All Town financial activity should be accurately recorded in the accounting records, summarized in interim financial reports and presented to the Board to help it monitor and manage the Town's financial operations and assess financial condition. Because the usefulness of financial

⁴ These receipts were comprised of four from the County (\$56,494), one from the State (\$15,233) and five building permit receipts (\$2,406) from the Town's Code Enforcement Officer.

⁵ Intact means that money deposited is in the same amount and form (cash or check) as received. Detailed deposit slips would provide evidence that cash receipts were deposited intact.

⁶ Totaling about \$26,000

⁷ Our sample included three Town officials. See Appendix B for more information on sample selection.

⁸ We verified the check numbers, amounts and payees, Supervisor's signature, and determined whether the checks were issued in sequential order and whether the check information agreed with the accounting records.

information depends on its timeliness, the Supervisor should file an annual financial report with the Board, OSC and the Town Clerk for the public's review, within the required time limits.

In 2008, Town officials reported total revenues of nearly \$2.5 million (with more than \$900,000 in real property taxes) and total expenditures of approximately \$5.4 million.⁹ Since 2008, the bookkeeper provided the Board with monthly revenue and expenditure reports. However, these reports were inaccurate because cash balances recorded in the accounting records had not been reconciled. Additionally, the Supervisor had not filed an annual financial report with the Board or OSC since 2008.

We compared cash activity recorded in the accounting records with the bank statements for 2012 through October 2013 and found no material discrepancies. In November 2013, the bookkeeper began to provide the Board with monthly bank statements and bank reconciliations. However, we reviewed the September 2013 reconciliations and found that they did not agree with the ending cash balances in the accounting records.

These conditions existed because the Supervisor failed to properly oversee the bookkeeper's work. The bookkeeper told us that the inaccurate records and failure to file the annual financial reports occurred because he was behind in his duties and that some transactions were incorrectly recorded in the accounting records in 2009. However, without properly reconciled cash balances, the Board has no assurance that all cash has been properly accounted for. Further, without accurate monthly reports, the Board is precluded from monitoring and managing Town financial operations and assessing financial condition. The failure to file accurate and timely annual financial reports with OSC also denies the Board and the public a primary fiscal tool to monitor the financial affairs of the Town.

Annual Audit

Town Law requires the Supervisor to present his books and records to the Board for audit by January 20th of the following year.¹⁰ An annual audit helps the Board fulfill its fiscal oversight responsibilities by providing it with an opportunity to assess the reliability of the books, records and supporting documents. It also serves to identify conditions that need improvement and provides useful information to help the Board oversee the Town's financial operations.

⁹ The Town maintains six separate operating funds.

¹⁰ The Board may also engage the services of a certified public accountant or public accountant to perform the annual audit within 60 days of the close of the fiscal year.

The Board did not perform, or provide for, annual audits of the Supervisor's records since at least 2008. Had the Board performed the required audits, Board members may have noticed that the bookkeeper was not depositing receipts timely or not preparing accurate monthly bank reconciliations.

Recommendations

1. The Supervisor should ensure that:
 - The bookkeeper's financial duties are adequately segregated or that compensating controls are put in place if segregation is not feasible,
 - All cash receipts are deposited in a timely manner,
 - Accounting records are kept in an accurate and complete manner,
 - Cash balances recorded in the accounting records are accurate and periodically reconciled to the bank statements and
 - Timely and accurate monthly and annual financial reports are prepared.
2. The Supervisor should file the Town's annual financial report with OSC and the Town Clerk within 90 days after the close of the fiscal year, or 120 days after the close of the fiscal year if an extension is granted.
3. The Board should conduct an annual audit of the Supervisor's records or engage an independent auditor to conduct the audit. For guidance on conducting annual audits, Town officials should refer to our publication entitled *Local Government Management Guide – Fiscal Oversight Responsibilities of the Governing Board*.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

*Town of Franklin CSD
PO Box 124
Franklin, NY 13775*

April 30, 2014

Division of Local Government and School Accountability
NYS Office of the State Comptroller
ATTN: H. Todd Eames, Chief Examiner
44 Hawley St., Suite 1702
Binghamton, NY 13902

Dear Chief Examiner Eames:

This letter is in response to the Report of Examination for the period covered January 1, 2012 to October 11, 2013, for the Town of Franklin Financial Operations.

We, as a Town Board, acknowledge the findings of Auditor [REDACTED], CPA.

We, as a Town Board, will take measures to implement the suggestions made.

This letter is being faxed to 607-721-8313 today. A hard copy will be placed in the US Mail today also.

Sincerely,

 Jeffrey R. Taggart
Town of Franklin Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Town's financial operations. To achieve our objective and obtain valid audit evidence our procedures included the following:

- We interviewed Town officials to gain an understanding of the Town's cash receipts and disbursement processes and the related internal controls.
- We confirmed cash balances at two local banks in the Town of Franklin as of December 31, 2012 and September 30, 2013. We then compared the cash confirmation balances with amounts recorded in the accounting records to determine if any cash accounts were not recorded.
- We determined cash positions for all funds held by the Supervisor as of January 1, 2012 and September 30, 2013 by performing bank reconciliations. We obtained bank statements for all accounts, canceled check images, voided checks and the related check registers.
- We inquired of Town officials the reasons for not filing the required annual financial reports and not performing an annual audit of the Supervisor's records.
- We obtained the February 2013 monthly report from the Town Clerk and compared it with the budget versus actual report from the Town's accounting software to verify the accuracy and completeness of the bookkeeper's monthly reports.
- We determined if all non-payroll checks disbursed during our audit period were issued in numerical sequence, accounted for properly and signed by the Town Supervisor. We determined checks that had not cleared the bank by comparing the check register to canceled check images and voided checks maintained by the Town bookkeeper. For checks that cleared the bank but were not on the check register, we traced to the monthly abstract to verify that the payment was approved by the Board.
- We reviewed 2012 annual payrolls for the Town Supervisor, bookkeeper, Highway Superintendent and the first three highway employees listed in payroll. We verified that these employees were paid based on their annual contract/Board-approved rates and properly recorded in the accounting records.
- We obtained State and County payments made to the Town and the building permits issued during our audit period. We randomly selected 10 payments to determine if receipts were properly recorded in the accounting records and deposited in a timely manner.
- We obtained bank statements along with canceled check images for our audit period and randomly selected 20 canceled checks to determine if the disbursements were made for proper Town purposes.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

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

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313