OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Town of Evans

Board Oversight

Report of Examination

Period Covered:

January 1, 2012 – September 29, 2015

2016M-2

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TOWN OF EVANS

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

April 2016

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 Evans, entitled Board Oversight. 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 New York State 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 Evans (Town) is located in Erie County and covers 42 square miles. The Town encompasses the Village of Angola and has a population of approximately 16,000 residents. The Town Board (Board) is composed of two elected Council members and an elected Town Supervisor (Supervisor). The Board is the legislative body responsible for the general management and control of the Town's financial affairs.

The Supervisor is the Town's chief financial officer and is responsible for performing accounting functions, including maintaining accounting records and providing monthly financial reports to the Board. The Town has three full-time clerks and one part-time clerk to record financial activity, including cash receipts and disbursements, and to process cash transfers between bank accounts. The Town also contracts with an accounting firm to assist the Supervisor in performing his financial duties and compiling the Town's annual financial report.[1] The Town contracted with two firms during our audit period – the prior firm from January 2012 through January 19, 2015 and the current firm effective February 18, 2015.

The Town provides a variety of services to its residents, including highway maintenance and improvements, snow removal, fire and police protection, water services[2] and general government support. The Town's primary funding sources are real property taxes, sales tax and State aid. The Town's 2015 budgeted appropriations totaled $11 million for general fund and highway fund operations and $1.1 million for water fund operations.

Objective

The objective of our audit was to review management's response to independent and external auditor reports. To accomplish this objective we addressed the following related question:

- Did the Board provide proper oversight to ensure that appropriate corrective action was taken in response to audit reports?

Scope and Methodology

We examined independent and external auditor reports, corrective action plans and the Supervisor's financial records and reports for the period January 1, 2012 through September 29, 2015.

[1] Annual year-end financial reports filed with the Office of the State Comptroller (OSC)

[2] The Town provides water service to 108 customers and the Erie County Water Authority provides water service to the remainder of Town residents.

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 are included in Appendix B of this report.

Comments of Town 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 that they planned 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 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 this plan available for public review in the Town Clerk's office.

Board Oversight

The Board is responsible for overseeing the Town's fiscal operations. The Board should prepare and implement a written CAP when it receives an audit report or management letter with findings and recommendations. A CAP provides an opportunity for the Board to communicate how audit findings and recommendations will be used to improve operations and internal controls. The Board's oversight responsibility also includes annually auditing, or causing to be audited, the Supervisor's records.

We found that the Board did not provide proper oversight to ensure appropriate corrective action was implemented to address significant issues identified by auditors. As a result, the Town's financial records remain inaccurate, incomplete and unreliable, and the Board is not in a position to properly monitor the Town's financial condition. Furthermore, significant interfund advances remain unpaid, which could negatively impact the town-wide general fund's financial condition.

The Board hired an accounting firm to assist the Board in preparing a written response to our 2012 audit and developing a CAP, but the Board did not ensure that the CAP was implemented. The Board also did not respond to material weaknesses and significant deficiencies identified by the Town's external auditor for the past three fiscal years.[3] The Town has spent more than $281,000[4] for various accounting and audit services, but many significant audit findings and accounting deficiencies remain unaddressed.

The Board's failure to implement audit recommendations in a timely manner has resulted in the continuation of extremely poor accounting records and a lack of reports. This fosters an environment where the Board cannot effectively assess or monitor the Town's financial condition. The most significant deficiencies[5] are as follows:

Accounting Records and Reports – Accurate recording and reporting of financial activity is critical to the effective management of the Town's operations. During our audit in 2012, we found that the Supervisor

[3] Reports from fiscal years ending December 31, 2012 through December 31, 2014

[4] $164,800 was paid to the prior firm over a three-year period and $107,025 to the previous external auditor over a three-year period. An additional $9,600 was paid to the external auditor who took over financial accounting duties on February 18, 2015 to compile the basic financial statements and file the annual update document.

[5] See Appendix B for additional information on our selection.

did not maintain accurate or timely records and that the Board depended on the external auditor to correct accounting and recording errors. In its corrective action plan, the Board indicated it would contract with an accounting firm to assist the Supervisor in performing his financial duties. However, the Board and Supervisor did not ensure that the firm adequately performed its duties as outlined in the contract. As a result, the Town did not have accurate and complete accounting records and the Board was not provided with appropriate financial reports.

For example, the prior firm did not prepare the 2011 through 2014 annual financial reports, known as the annual update document (AUD).[6] The AUD provides the Board, OSC, Town residents and other interested parties with a tool to monitor and evaluate financial operations. The 2011 and 2012 AUDs were never filed, and the Board had to pay another firm $2,400 to prepare the 2013 and 2014 AUDs, which were not completed until March 26, 2015 and April 30, 2015, respectively. The firm also did not resolve cash discrepancies, adequately monitor budgets, assist with the development of a multiyear financial plan or address material control weaknesses and significant deficiencies identified in the external auditor's reports and our 2012 audit report. Board members indicated that they had relied on the prior firm to implement appropriate corrective action and to perform the financial duties outlined in the contract. However, it's the Board's responsibility to ensure corrective action is taken and the Supervisor's responsibility for ensuring accurate and complete financial records and reports are maintained.

Because adequate accounting records are not maintained, the Board has continued to rely on the external auditor to correct accounting errors and record financial activity. We reviewed the external auditor's proposed adjusting journal entries for 2012 through 2014 and found numerous entries were required to correct significant recording errors and to record transactions not recorded. For example, short-term debt proceeds totaling approximately $3.1 million[7] received in 2013 and $2.2 million[8] received in 2014 were not recorded when received. Similarly, debt service payments totaling $157,530, $2.6 million and $2.5 million (principal and interest) in 2012, 2013 and 2014, respectively, were not recorded.

Although the external auditor identified these missing accounting entries, financial audits are not typically completed until after the end of the fiscal year. By relying on the external auditor to record routine financial activity, the Town's accounting records remain inaccurate and incomplete throughout the year, and the Board cannot properly monitor the Town's financial operations without them. Further, the Town's 2012 and 2013 audits were not completed until a year after the close

[6] Annual year-end financial reports filed with OSC

[7] $1,200,804 tax anticipation note and $1,855,000 bond anticipation note

[8] $2,162,456 bond anticipation note

of the fiscal year. The audited financial statements for 2012 were not completed until December 11, 2013, while the audit for 2013 was not completed until December 30, 2014. We also found that $189,732 in water surcharge revenue received in November 2013 was not recorded by the Town or adjusted by the external auditor as of September 11, 2015.

The poor condition of the Town's accounting records led the external auditor to issue an adverse opinion and a disclaimer of opinion on both the Town's 2013 and 2014 financial statements. An adverse opinion states that the financial statements do not present fairly the financial position, results of operations or cash flows of the entity in conformity with generally accepted accounting principles. A disclaimer of opinion states that the auditor does not express an opinion on the financial statements because he or she was not able to perform an audit sufficient in scope to render an opinion. Either type of audit opinion is indicative of extremely poor financial records which cannot be relied upon to assess financial condition or operations.

Bank Reconciliations – For the last three years, the external auditor indicated that monthly bank reconciliations were not prepared properly. As a result, the Town's combined[9] reconciled bank accounts were $34,404, $87,539 and $234,902 more than the general ledger cash balance as of December 31, 2012, 2013 and 2014, respectively.[10] However, the Supervisor did not take action to implement corrective action and the Town still has no formal process in place to reconcile bank balances to the accounting records (general ledger).

We prepared the bank reconciliation for July 2015 and found that the Town's combined reconciled bank balances were $31,589 more than the general ledger cash balance as of July 31, 2015. The accountant from the current firm (former external auditor) indicated that they are working on reconciling the remaining cash difference, but have been unable to do so at this point.[11]

Ensuring that bank reconciliations are prepared in a timely manner is an essential internal control for detecting accounting and banking errors and for identifying fraudulent transactions. Without an adequate process in place for reconciling bank balances, there is an increased risk that errors and fraud could occur and go undetected.

Water Fund Operations – During our 2012 audit, we found that the Board did not sufficiently budget and properly account for water fund

[9] The Town does not maintain a separate bank account for each operating fund. The cash from various operating funds is deposited and commingled into several bank accounts. We compared the total reconciled bank balances to the total cash balances reported on the Town's accounting records.

[10] Per external auditor's report

[11] According to information provided by the firm, they have reconciled the difference to $27,753 as of June 2015, which was the most current information available.

operations and allowed the water fund to incur long-standing cash and operating deficits without taking appropriate action. Town officials paid water expenditures using a combined checking account funded by the Town's other operating funds because the water fund had no cash available. The Board's CAP stated that a formal written plan of action would be in place by September 30, 2012 to address the operating losses and to repay the operating funds that had advanced cash to the water fund.

However, as of September 2, 2015, the Board has not yet adopted such a plan. Although the former external auditor assisted the prior firm in developing a 10-year repayment plan in December 2014, the plan was never presented to the Board for review or implemented. As of December 31, 2014, the water fund owed the general fund $3.3 million, but Town officials did not know if or when the interfund advance would be repaid.[12] If not addressed, the impact on the general town-wide fund's financial condition could result in a deficit assigned fund balance of $2.6 million.

Because the Board did not provide proper oversight or address significant issues identified by both OSC and the external auditor, the Board's ability to effectively monitor the Town's financial operations has been greatly reduced.

Recommendations

The Board should:

1. Ensure that CAPs prepared in response to audit reports with findings and recommendations are implemented in a timely manner.

2. Provide proper oversight of accounting service providers to ensure that all contractual obligations are met.

3. Develop a plan to repay outstanding interfund advances to the water fund.

The Supervisor should:

4. Ensure the AUD is properly filed in a timely manner.

5. Ensure that monthly bank reconciliations are properly performed and reviewed and promptly resolve any discrepancies.

6. Properly monitor the work of the firm to ensure that accounting records are complete, timely and accurate.

[12] The interfund advance amount was obtained from the external auditor's 2012 audited financial statements.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

The Town officials' response to this audit can be found on the following pages.

TOWN OF EVANS

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COUNCILMAN

JEANNE MACKO
COUNCILWOMAN

March 30, 2016

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

To Whom It May Concern:

The Town of Evans, New York has reviewed the draft report of examination over Board oversight presented to us on March 14, 2016. We offer the following written response to your draft audit report:

Recommendation—Ensure that CAPs prepared in response to audit reports with findings and recommendations are implemented in a timely manner.

Response—The Town has begun the process to develop a comprehensive corrective action plan in order to improve operations and internal controls at the Town.

Recommendation—Provide proper oversight of accounting service providers to ensure that all contractual obligations are met.

Response—The recently elected Supervisor has been involved in daily oversight over and holds weekly meetings with the Town's accounting service provider. Furthermore, the Town is in the process of implementing formal monitoring procedures to be conducted by the Town Board on a monthly basis.

Recommendation—Develop a plan to repay outstanding interfund advances to the water fund.

Response—The Town had outlined an informal payment plan to settle outstanding interfund loans. A formal plan will be presented to the Town Board for resolution.

Recommendation—Ensure the AUD is properly filed in a timely manner.

Response—The Town has improved processes surrounding financial record keeping and implemented an improved journal entry policy in order to ensure compliance with the State Comptroller annual report filing deadlines.

Recommendation—Ensure that monthly bank reconciliations are properly performed and reviewed and promptly resolve any discrepancies.

Response—A formal Bank reconciliation process has been adopted by the Town Board at its February 3, 2016 meeting. Timely performance and review have been addressed within the Town's Bank Reconciliation Policy.

We are committed to improving the Town's operations and internal controls. We agree with the State Comptroller audit and recommendations. Actions to address and correct the observed findings have been initiated.

Sincerely,

Mary K. Hosler
Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine whether the Board provided proper oversight and ensured that appropriate corrective action was taken in response to audit reports. To accomplish this, we interviewed appropriate Town officials, tested selected records and examined pertinent documents for the period January 1, 2012 through September 29, 2015. Our procedures included the following:

- We interviewed the Supervisor and Board members to gain an understanding of the procedures performed in preparing and implementing CAPs in response to audit reports.
- We reviewed the prior OSC audit report and the external auditor's reports, judgmentally selected the most material findings and assessed whether corrective action had been taken.
- We reviewed Board minutes and the external auditor's reports to determine the amount of debt issued between January 1, 2012 and September 29, 2015.
- We performed the bank reconciliation for July 2015 to determine the variance between the adjusted bank balances and the reported general ledger balances.
- We reviewed the accounting records to determine whether water bill surcharges were properly recorded.
- We analyzed adjusting journal entries proposed by the external auditor.
- We analyzed available cash and fund balances for the operating funds based on the available records.
- We reviewed the accounting services contract with the prior firm to assess whether the firm fulfilled its duties.

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

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APPENDIX D

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