



Town of Victor

Oversight of Financial Operations

Report of Examination

Period Covered:

January 1, 2009 — November 1, 2010

2011M-24



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2011

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 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 Victor, entitled Oversight of 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Victor (Town) is located in Ontario County and has a population of approximately 14,000. The Town provides various services to its residents, including street maintenance, lighting, parks and recreation programs, and general government support. For the fiscal year ended December 31, 2010, the Town's budgeted appropriations totaled \$13.8 million.

The Town is governed by the Town Board (Board), which comprises four elected members and an elected Town Supervisor (Supervisor). The Supervisor also serves as the chief executive and chief fiscal officer. The Supervisor is responsible for the receipt, disbursement and custody of Town moneys, maintaining accounting records, and providing financial reports. Although the Board is primarily responsible for the effectiveness and proper functioning of internal controls, the Supervisor and department heads share this responsibility. The Board is responsible for reviewing and approving payment for claims against the Town.

Scope and Objective

The objective of our audit was to examine internal controls over selected financial activities for the period January 1, 2009 through November 1, 2010. Our audit addressed the following related questions:

- Did the Board provide adequate oversight over the Town's financial operations?
- Did the Supervisor maintain accurate and reliable financial records and reports?

Audit Results

Neither the Board nor the Supervisor provided adequate oversight over the Town's financial operations. The Board did not monitor the Town's financial operations and did not require that the Supervisor provide it with accurate and up to date financial records and reports. As a result, the Supervisor did not provide the Board with financial reports for a 21-month period, which precluded the Board from adequately monitoring the Town's financial condition.

The Board did not provide the necessary guidance to the Supervisor, appointed officials and employees, and did not establish internal controls that ensured the Town's financial activity was accurately recorded and reported on a timely basis. The Board did not ensure that the Supervisor assigned accounting duties to properly trained personnel or that those duties were adequately segregated. Further, the Board failed to ensure that the Supervisor maintained and filed all records and reports in a timely manner. As

a result, significant accounting deficiencies occurred and the Board did not have reliable information on which to base management decisions. In addition, the Board did not audit the Supervisor's records and reports on an annual basis, as required. Further, the Board did not audit all claims before they were paid, which increased the risk that Town moneys could be spent for inappropriate purposes.

At the beginning of our audit period, the Accountant handled nearly all of the accounting duties, with limited oversight. The Board suspended the Accountant in January 2009, shortly after the Supervisor took office.¹ Following the Accountant's suspension, the Supervisor relied on the finance clerk to perform most of the Accountant's duties. However, he did not provide her with additional oversight and training or develop clear duty descriptions to assist her in performing accounting duties during the Accountant's 14-month absence. As a result of these ongoing internal control deficiencies, the Town's accounting records were in considerable disarray. For example, the Town's 2009 trial balance reports, printed on June 30, 2010, were out of balance by more than \$4.37 million. The Supervisor failed to submit monthly reports to the rest of the Board so that it could monitor the Town's financial condition. Further, the Supervisor failed to submit the Town's annual financial report on a timely basis. As of March 31, 2011, the Supervisor had not filed the 2010 annual report or the 2009 annual report. The 2009 annual report was over 350 days late.

Comments of Local Officials

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 had begun and planned to continue to initiate corrective action. Appendix B includes our comment on an issue raised in the Town officials' response.

¹ The Supervisor took office on December 1, 2008. Upon taking office, he continued to assign most accounting duties to the Accountant, as had been the practice of prior Supervisors.

Introduction

Background

The Town of Victor (Town) is located in Ontario County and has a population of approximately 14,000. The Town provides various services to its residents, including street maintenance, lighting, parks and recreation programs, and general government support. For the fiscal year ended December 31, 2010, the Town's budgeted appropriations totaled \$13.8 million.

The Town is governed by the Town Board (Board), which comprises four elected members and an elected Town Supervisor (Supervisor).² The Supervisor also serves as the chief executive and chief fiscal officer. The Supervisor is responsible for the receipt, disbursement and custody of Town moneys, maintaining accounting records, and providing financial reports. Although the Board is primarily responsible for the effectiveness and proper functioning of internal controls, the Supervisor and department heads share this responsibility. The Board is responsible for reviewing and approving payment for claims against the Town.

Objective

The objective of our audit was to examine internal controls over selected financial activities. Our audit addressed the following related questions:

- Did the Board provide adequate oversight over the Town's financial operations?
- Did the Supervisor maintain accurate and reliable financial records and reports?

Scope and Methodology

We examined the Town's financial operations, Board oversight and claims audit process for the period January 1, 2009 to November 1, 2010.

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 C 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 had

² Board members are elected for rotating four year terms, and the Supervisor is elected to a two year term; thus, the Board membership changes periodically, resulting in different individuals who share the Board's ongoing oversight responsibilities.

begun and planned to continue to initiate corrective action. Appendix B includes our comment on an issue raised in the Town officials' response.

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 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 Town Clerk's office.

Board Oversight

The Board is responsible for the oversight of the Town's financial operations. It is essential that Board members understand the extent of oversight required to meet their responsibilities to Town taxpayers. This requires the Board to establish internal controls that enable Town officials to monitor financial activity and obtain information for making management decisions, preparing realistic budgets, filing required reports, and maintaining a healthy and stable financial position for the Town. In addition, the Board is required to audit the Supervisor's records and reports on an annual basis to ensure that all Town moneys have been adequately accounted for. The Board also must audit and approve all claims before they are paid to ensure that claims are for appropriate Town purposes.

The Board did not provide the necessary guidance to the Supervisor, appointed officials and employees, and did not establish internal controls that ensured the Town's financial activity was accurately recorded and reported on a timely basis. The Board did not ensure that the Supervisor assigned accounting duties to properly trained personnel or that those duties were adequately segregated. Further, the Board failed to ensure that the Supervisor maintained and filed all records and reports in a timely manner. As a result, significant accounting deficiencies occurred and the Board did not have reliable information on which to base management decisions. In addition, the Board did not audit the Supervisor's records and reports on an annual basis, as required. Further, the Board did not audit all claims before they were paid, which increased the risk that Town moneys could be spent for inappropriate purposes.

Oversight of Accounting Duties

At a minimum, Board members must ensure that the Town's financial records are complete and up-to-date, transactions are recorded properly, bank reconciliations are done monthly, and required reports are completed and filed on a timely basis. It is essential that the Board adopt comprehensive policies and require the Supervisor to implement procedures to govern accounting and recordkeeping functions. These policies and procedures must adequately segregate duties within the finance department, ensure staff are qualified and properly trained, and ensure the Town's financial activity is accurately recorded and reported on a timely basis. Written policies and procedures help to ensure that transactions are processed consistently and accurately, provide guidance for employees to understand the Town's objectives and each individual's role in the process, and can reduce the turmoil and training time needed during periods of staff turnover.

Assigning Accounting Duties — The Board has not adopted comprehensive policies, or required the Supervisor to implement detailed procedures, for many vital accounting and recordkeeping functions. The Town experienced significant turnover in the finance department, and the Supervisor relied on various individuals to maintain the Town’s accounting records during our audit period. Therefore, it was crucial that policies and procedures be in place to help ensure that the Town’s records were adequately maintained during the transition periods. Further, the Board did not address the lack of segregation of duties within the finance office which resulted when the Supervisor assigned virtually all accounting duties to one individual, and did not ensure that the Supervisor performed independent reviews of pertinent records such as bank reconciliations, journal entries, or bank transfers. The Board’s failure to provide the necessary oversight contributed to the significant problems we found with the Town’s financial records.

The Board suspended the Chief Accountant (Accountant) in January 2009, pending a civil service hearing. The Board did not take sufficient action to ensure that the Town’s financial activity would be properly and timely accounted for during the Accountant’s absence. Instead, the Supervisor relied on a finance clerk to take over most of the Accountant’s duties, but she did not have proper experience to perform those duties and was unable to keep up with the additional work load. The finance clerk had only worked in that position since January 2008, and had primarily performed payroll-related tasks through July 2008. She was still being trained in her other duties as the finance clerk when the Board suspended the Accountant. Her inability to perform the Accountant’s duties was exacerbated by the fact that the Board and Supervisor had not established detailed accounting procedures or duty descriptions to help guide the finance clerk in learning and performing the required tasks. Had the Board provided proper oversight during this time, it could have intervened and placed more qualified individuals in this position to adequately account for the Town’s finances.

The Board hired a part-time temporary Fiscal Manager in May 2009, but did not give her the responsibility to help maintain the accounting records.³ Town officials told us that they contracted with the temporary Fiscal Manager to put together the Town’s 2010 budget and prepare and file the Town’s 2008 Annual Report. In April 2010, the Board removed the temporary Fiscal Manager from her position after she was arrested on tax fraud and various other charges stemming from her previous employment at another municipality. The Board then

³ Town officials told us the temporary Fiscal Manager did do some recordkeeping to assist the finance clerk, but this was not her primary responsibility.

hired a new full-time Fiscal Manager in June 2010 to take over the Town's accounting and recordkeeping functions. While the Fiscal Manager has made progress in accounting for the Town's finances, more work needs to be done for the Town's records to be complete and accurate, as discussed in more detail in the section entitled "Supervisor's Accounting Records and Reports."

Oversight of Reporting — The Board did not require that the Supervisor provide it with accurate monthly reports or ensure that the Supervisor filed the Town's annual report with OSC in a timely manner. Without accurate monthly reports, the Board lacked the information it needed to adequately monitor and manage the Town's fiscal condition. In fact, the Board did not receive monthly financial reports for a 21-month period, from November 2008 through July 2010.

This is especially important because the Town's combined fund balance had steadily declined over the last three reported years from 2006 to 2008. Unappropriated fund balance⁴ reported in the townwide general fund decreased from \$1.5 million in 2006 to less than \$500,000 as of December 31, 2008. Similarly, the part-town general fund balance decreased from \$327,000 in 2006 to \$11,000 in 2008. The declining fund balances resulted in part from operating deficits (expenditures exceeding revenues) of \$3.7 million in the townwide general fund in 2008, and operating deficits in the last three reported years, totaling \$486,000 in the part-town general fund.

The Town's current records are not adequate to assess its present financial condition. The Board must have timely and reliable accounting records and reports to adopt and monitor accurate budgets and to timely identify and address fiscal stress concerns. The Board's failure to require that the Supervisor provide it with accurate and up to date financial information is a significant lack of oversight and could result in the Town's financial condition continuing to deteriorate.

Annual Audit

Town Law requires the Supervisor to present all supporting books, records, receipts, warrants, vouchers and canceled checks or check images for the fiscal year to the Board by January 20 of the following fiscal year. The Board is required to audit, or engage the services of an independent public accountant to audit, the Supervisor's accounting records and reports within 60 days after the close of each fiscal

⁴ Unappropriated fund balance is the portion of fund balance that can be used to manage unexpected occurrences such as emergency repairs, cost and demand fluctuations in commodities such as utilities and gasoline, and unanticipated shortfalls in estimated revenues. Inadequate unappropriated fund balance limits the Town's ability to manage emergencies and other unanticipated occurrences.

year. These procedures allow the Board to verify that all financial transactions have been recorded and reported accurately and that cash has been accounted for properly. They also provide Board members with an added measure of assurance that the Supervisor's accounting records and reports contain reliable information upon which to base management decisions.

The Town's 2007 and 2008 annual audits were not completed until August 2009 and November 2009, respectively. The Board did not even contract with a firm to conduct these audits until February 2009. The firm completed the 2007 audit in August 2009. Due to contractual differences, the Town then contracted with a different audit firm in August 2009 to audit its 2008 records, which the firm completed in November 2009.

In addition to not contracting with an independent auditor to audit the Supervisor's records in a timely manner, the Board has taken limited corrective action to address multiple significant internal control deficiencies cited by the independent auditors in their management letters for the 2007 and 2008 fiscal years. These deficiencies included the lack of segregation of accounting duties, the use of an inadequate computerized accounting system, significant recordkeeping deficiencies, and the need to make many material year-end adjusting entries. In fact, the Town's independent auditors cited that the Town did not have adequate resources and personnel with the accounting knowledge to record daily transactions and prepare financial statements in accordance with generally accepted accounting principles. The Board suspended the Accountant, who was responsible for maintaining the 2007 and 2008 records in January 2009,⁵ but it did not ensure that knowledgeable personnel was in place to keep up with the day to day recordkeeping duties. Although the Board hired a part-time temporary Fiscal Manager four months after the Accountant's suspension, this individual was primarily tasked with putting together the 2010 budget and preparing the 2008 Annual Report, not routine recordkeeping.⁶ The Board later hired a full-time replacement for the Accountant in June 2010 to maintain the records. In July 2010, the Board also replaced the computerized accounting system with one designed for governmental accounting. Although the new personnel and accounting system are in place, the records and reports are still not complete and up to date.

As of November 1, 2010, the Town's annual audit of the 2009 records had not been completed. The independent auditors attempted to start

⁵ Prior to receiving the 2007 and 2008 management letters.

⁶ Town officials told us the temporary Fiscal Manager did do some recordkeeping to assist the finance clerk, but this was not her primary responsibility.

the 2009 audit in April 2010 and determined that the Town's records were in such disarray that they could not perform an audit until the Town addressed several significant deficiencies. The auditors returned to conduct fieldwork in September 2010, but as of the end of March 2011, they had not completed the audit.

Performing an annual audit of the Supervisor's records and reports is an important tool for the Board to ensure that the Town's financial records are complete and adequately maintained. The Board's failure to audit these records in a timely manner is a considerable oversight deficiency and prohibits the Board from ensuring that Town funds have been properly accounted for. Further, the Board's failure to take more aggressive and timely action to correct deficiencies cited in the independent auditors' reports demonstrates its lack of commitment to properly overseeing the Town's operations.

Claims Audit

With few exceptions, Town Law requires the Board to audit and approve all claims before the Supervisor can disburse payment. The Board's approval must be accurately recorded in the Board's minutes. The audit of claims should be a deliberate and thorough process to determine whether proposed payments are proper, and whether the Town's purchasing procedures and applicable Laws have been followed. All claims must be for valid Town expenditures and must be written, itemized and accurate; include evidence of approval of the Town official responsible for the purchase; and include evidence that the goods or services have been received.

The Board did not conduct a deliberate and thorough audit of claims. Town officials told us that Board members generally only review the abstract of claims. They rarely review the individual claims and supporting documentation before approving them for payment.

We examined 159 claims totaling \$235,000⁷ to determine whether claims were supported by adequate documentation and departmental approval, and to substantiate the Board's approval for payment. We found that 70, or 44 percent, of the claims we tested, totaling \$85,700 did not have adequate or appropriate documentation to support payment. Examples of the deficiencies we found are below. Some claims had more than one deficiency and were included in multiple examples.

⁷ In selecting our sample, we scanned electronic disbursement data for high-risk transactions based on our judgment for the audit period. We considered payments to Board members or other Town officials or their spouses, payment of personal expenses, unrecognized vendors, purchases from vendors that appear unrelated to Town operations, and the dollar amount of the payments made.

- Twenty-five claims did not have sufficiently detailed invoices that described services received. For example, we reviewed 12 invoices, totaling \$24,000, from one vendor who provided public relations services for the Town. The Town did not have a contract with this vendor stipulating the services to be provided, and the invoices were not itemized to clearly indicate what work the vendor completed.
- Eighteen claims lacked evidence of receipt of the goods or services, including, for example, an \$8,500 payment for the purchase of a reconditioned self-contained recycling compactor.
- Fourteen claims lacked appropriate department head approval for payment. This includes one instance where a department head approved his own claim for mileage reimbursement totaling \$233.
- Although the Town's policy on mileage reimbursement states that the Town will not reimburse employees for in-Town mileage, the Town paid 10 claims totaling \$700 for in-Town mileage reimbursement to employees.

Without a thorough and complete audit of claims by the Board, the risk is increased that the Town could pay for expenditures that are not Town-related.

Recommendations

1. The Board and Town officials should adopt and implement comprehensive policies and procedures for, and adequately segregate, financial accounting and reporting duties to ensure the Town's financial activity is accurately recorded and reported on a timely basis.
2. The Board should insist that it receives the necessary financial reports from the Supervisor each month and use these reports as a tool to effectively manage the Town's financial operations.
3. The Board should ensure that the Town's annual financial reports are filed with OSC within the prescribed statutory period. The presentation of financial statements to the Board should be documented in the minutes.
4. The Board should implement adequate corrective action to address all significant internal control weaknesses identified by its external auditors.

5. The Board should audit, or contract with a public accountant to audit, the Supervisor's records and reports on a timely basis each year.
6. The Board should conduct a deliberate and thorough audit of claims to ensure that each claim represents a valid Town purpose and that the Town's policies and applicable laws have been followed.

Supervisor's Records and Reports

The Supervisor, as the chief fiscal officer, is responsible for the basic accounting functions, maintaining adequate records, and providing other Board members with the timely and accurate financial information they need to effectively manage Town operations. If the Supervisor assigns these duties to an assistant, the Supervisor should provide a detailed duty description and sufficient oversight to ensure that the assistant maintains suitable records and documents financial information accurately and on a timely basis. The Supervisor must maintain these records accurately and timely to generate, and provide the Board with reliable monthly⁸ and annual financial reports. Accurate reports allow the Board to routinely monitor the Town's financial activity, control its expenditures and safeguard Town assets.

At the beginning of our audit period, the Accountant handled nearly all of the accounting duties, with limited oversight. The Board suspended the Accountant in January 2009, shortly after the Supervisor took office.⁹ Following the Accountant's suspension, the Supervisor relied on the finance clerk to perform most of the Accountant's duties. However, he did not provide her with additional oversight and training or develop clear duty descriptions to assist her in performing accounting duties during the Accountant's 14-month absence. As a result of these ongoing internal control deficiencies, the Town's accounting records were in considerable disarray. For example, the Town's 2009 trial balance reports, printed on June 30, 2010, were out of balance by more than \$4.37 million. The Supervisor failed to submit monthly reports to the rest of the Board so that they could monitor the Town's financial condition. Further, the Supervisor failed to submit the Town's annual financial report on a timely basis. As of March 31, 2011, the Supervisor had not filed the 2010 annual report or the 2009 annual report. The 2009 annual report was over 350 days late.

Segregation of Duties

It is important that financial duties are properly segregated so that no individual has uncontrolled access to all aspects of a transaction or processing cycle. For example, the same individual should not receive and deposit cash; prepare and disburse checks; and also be able to record transactions in the accounting records or perform cash

⁸ At the end of each month, Town Law requires the Supervisor to submit a monthly report to the Board of all moneys received and disbursed during the month. The reports also should include detailed monthly and year-to-date budget and actual comparisons, and balance sheet accounts, including reconciled cash balances for each fund.

⁹ The Supervisor took office on December 1, 2008. Upon taking office, he continued to assign most accounting duties to the Accountant as had been the practice of prior Supervisors.

reconciliations. If it is not practical to segregate these duties, the Board and Supervisor should implement compensating controls, such as reviewing bank statements and reconciliations on a monthly basis to ensure that cash receipts and disbursements are properly accounted for. It is also important to cross train staff so the Town can maintain critical operations during periods of staff turnover and absences.

As cited by the Town's independent auditors' in their management letters for the 2007 and 2008 fiscal years, the Accountant handled nearly all aspects of the cash receipts, cash disbursements and record-keeping processes during 2007 and 2008. The Town had no system in place to cross-train other staff to perform the Accountant's duties in the event of his absence. Therefore, no other Town employees were sufficiently qualified, trained or experienced to perform the Accountant's duties when the Board suspended him from January 2009 through March 2010. Although the Supervisor relied on the finance clerk to take over most of the Accountant's duties during his absence, he did not provide her with additional training or a detailed duty description to help her learn the job. In addition, the Supervisor provided little, if any oversight or review of the finance clerk's work. For example, the Supervisor did not provide an independent review of bank reconciliations, journal entries, or bank transfers to ensure the records were up to date and moneys were properly accounted for. This resulted in significant deficiencies in the Town's accounting records, as discussed in more detail below.

Accounting Records

Adequate financial records include cash receipts and disbursement journals, revenue and expenditure classification ledgers, general ledgers, and investment records. The Supervisor must periodically reconcile cash balances recorded in the general ledger to the actual amount of cash in the bank and promptly document and resolve any differences. The Supervisor must maintain these records accurately and timely to generate, and provide the Board with, reliable monthly and annual financial reports.

As of November 1, 2010, the Supervisor had not closed the Town's books or prepared annual financial reports for the 2009 fiscal year. As a result, Town officials were not in a position to effectively evaluate the Town's financial condition and did not have opening balances to carry over for accurate record keeping during the 2010 fiscal year. Consequently, Town officials had to rely on incomplete and inaccurate records and outdated account figures to attempt to estimate year-end fund balance for both 2009 and 2010 when developing the ensuing years' budgets. As of March 30, 2011, Town officials told us that the 2009 records and reports remained incomplete.

We reviewed the Town's 2009 accounting records to assess their completeness and accuracy, and identified various deficiencies. For

example, general ledger accounts did not balance. On the Town's 2009 trial balance reports, printed on June 30, 2010, assets exceeded total liabilities and fund equity in the general townwide fund by more than \$4.37 million. While the 2009 general ledger accounts were still out of balance in two funds as of November 1, 2010, Town officials have made progress, and had reduced the unreconciled difference in the general townwide fund to approximately \$4,400.

Further, Town officials did not record in the accounting records wire transfers made between bank accounts during 2009. In April 2010, Town officials recorded 2009 wire transfers totaling approximately \$320,000. In addition, the finance clerk did not properly record various other transactions. For example, the finance clerk told us that she did not know how to properly record sales and property tax revenues because she did not know how to distribute these moneys between funds. The Accountant recorded these transactions after he returned in March 2010.

Furthermore, through June 2010, Town officials were utilizing a financial software system that was not geared towards municipal fund accounting. Town officials purchased a new system and began recording transactions in this system beginning in July 2010. However, as of November 1, 2010, Town officials had not yet closed the 2009 records, and did not know the correct opening balances for 2010. Thus, they had simply tracked 2010 subsidiary revenues and expenditures in the new system and had not recorded any cash or other balance sheet accounts in the new system to account for 2010 activity. Town officials told us they plan to go back and enter the financial transactions for the first half of 2010, but they haven't had the time to do this yet.

In addition, the Supervisor did not delegate the responsibility for completing bank reconciliations to staff during the Accountant's absence and therefore, Town officials did not complete monthly reconciliations for the 2009 fiscal year. On November 1, 2010, bank account balances as of December 31, 2009 remained unreconciled, with an unresolved difference of approximately \$309,000. The Accountant had been working on reconciling 2010 bank balances during our fieldwork.¹⁰ He had an unreconciled difference of more than \$430,000¹¹ in the Town's common holding account as of June 30, 2010. The lack of preparation and oversight of bank reconciliations and the lack of investigation of any associated discrepancies limits

¹⁰ Without the benefit of having reconciled bank balances as of December 31, 2009, to use as beginning balances

¹¹ The Town commingles moneys for all of its funds in two primary bank accounts: the common checking account and common holding account. The common checking account is a zero balance account; the bank draws money from the common holding account as needed to cover checks issued.

Town officials' ability to identify and correct errors and increases the risk of loss or unauthorized use of Town funds.

Because the Supervisor failed to ensure that all cash activity and financial transactions were accurately and timely recorded, he was unable to provide the Board with information needed to make informed financial decisions and adequately monitor the Town's fiscal health.

Annual Financial Reports

General Municipal Law (GML) requires the Supervisor to file an annual financial report with the Office of the State Comptroller (OSC) within 90 days after the close of the fiscal year. The annual financial report is a representation of the Town's financial position and results of operation. The usefulness of the annual financial report depends on the timeliness of preparation.

The Supervisor failed to submit the Town's annual financial report to OSC on a timely basis. As of March 31, 2011, the Supervisor had not filed the 2010 annual report or the 2009 annual report. The 2009 report was over 350 days late. Similarly, the Supervisor filed the 2008 annual report in December 2009, which was over 265 days late. The Supervisor and Fiscal Manager told us that the Town relies upon its independent auditors to assist with closing the accounting records before the Town completes and files the annual financial report. Since the auditors have not completed the Town's 2009 audit, as discussed previously in the section entitled "Board Oversight," the Town has not filed its 2009 annual financial report. However, it is the Supervisor's responsibility to ensure that all financial records are maintained in a timely and accurate manner and conform to OSC's requirements, and to ensure the timely and accurate filing of the annual financial report.

Recommendations

7. The Supervisor should develop detailed accounting procedures and duty descriptions to provide clear guidance to finance department staff, and adequately segregate accounting duties to the extent possible. The Supervisor should perform independent reviews of pertinent records to mitigate instances where duties cannot be properly segregated.
8. The Supervisor should ensure that he and his staff maintain timely and accurate accounting records and reports and provide detailed information to the Board on a monthly basis.
9. The Supervisor should provide timely and accurate bank reconciliations to the Board, and ensure that all discrepancies are investigated and corrected immediately.
10. The Supervisor should file the Town's annual financial report with OSC in a timely manner, as required.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



TOWN SUPERVISOR
742-5020

TOWN CLERK
TAX COLLECTOR
742-5080

TOWN JUSTICE
924-5775
924-5262

ASSESSOR
742-5010

BUILDING
DEPARTMENT
742-5035

FINANCE
742-5025

HIGHWAY
DEPARTMENT
924-3323

HISTORIAN
742-5065

PARKS & RECREATION
742-0140

PLANNING & ZONING
DEPARTMENT
742-5040

RECYCLE DEPARTMENT
924-5145

WATER
DEPARTMENT
924-5145

June 14, 2011

Office of the State Comptroller
Division of Local Government and School Accountability
Syracuse Regional Office
Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

Dear Ms. Wilcox:

The following is our response to the Report of Examination – Oversight of Financial Operations for the Town of Victor (the Town) covering the period January 1, 2009 – November 1, 2010. The Town generally agrees with the examination findings; however, in our opinion the contents of the report do nothing more than formally document the issues the Town had already reported to your examiners during our entrance conference on July 26, 2010. In addition, the examination only identified the change in software and hiring of the Fiscal Manager as the only positive changes made by the Town during the same time period.

The examination period selected for the Town was very limited and focused entirely on the period during which we've experience the most significant turnover in accounting personnel. It is also important to identify that the Town has experienced significant growth during the past 10 years. In addition, the comments and recommendations seem predicated on the fact that the issues identified were a direct result of the current Town Board and Supervisor's actions at the time. Any failure to address those issues by previous Town Boards and Supervisors is not relevant to the purpose of this response.

As with many local governments, the development of an ideal set of internal controls is a daunting and expensive proposition. As a result, what often happens is the primary responsibility and authorization is placed in the hands of the main (or only) financial position – in our case the Chief Accountant. When that individual was suspended from his position, it was identified that there was not adequate cross-training, sufficient staffing, or established policies and procedures to assist the Town until a full-time replacement was identified.

The lack of segregation of duties discussed in the examination existed prior to the examination period, and was further complicated by the civil service limitations in filling the vacant position of Chief Accountant. The Town was legally not able to fill that position, and accordingly much of the responsibility for accounting fell to the remaining departmental employee. Our goal is to implement the necessary policies and procedures required to eliminate any weakness or deficiency that threatens the fiscal integrity of the Town and the Town's taxpayers now and in the future.

See
Note 1
Page 22

That being said, the current Town Board and Supervisor fully understand and accept our responsibility to act in a fiduciary capacity to the Town and its residents. Over the same period covered by the examination report, we have made substantial changes to the operations, controls, and policies of the Town to prevent a similar situation from occurring in the future. Additionally, we have made investments in personnel and resources to provide better accountability for the Town's finances.

The Town has already accomplished the following key items:

- Hiring of a Fiscal Manager to oversee the day to day operations of the department and assist in developing policies and procedures.
- Purchased and implemented a municipal fund accounting package that will be utilized beginning with the January 1, 2010 fiscal year. The Town has made the decision to re-enter all of the 2010 activity into the new software to ensure its accuracy and consistency.
- The fiscal 2008 and 2009 external financial audits have been completed and issued. The 2009 AUD submission has now been completed.
- The Town Board receives monthly status reports on the Town's finances.
- The Town Supervisor and Fiscal Manager perform quarterly budget reviews with all Department Heads.
- The Town Board financial liaison receives, opens, and reviews the bank statements on a monthly basis.
- Establishment of a formal claims review process for the Town Board.

Going forward, the following have already been identified as critical items:

- Our 2010 external financial statement audit is scheduled for September 2011 and our 2010 AUD will be submitted by this date as well.
- Beginning the establishment of financial calendar to outline key monthly reporting deadline and identify those responsible for their completion.
- Beginning the drafting of policies and procedures for the Finance Department, as well as other Town departments.

We acknowledge that the examination from the Comptroller provides recommendations for our consideration and would like to emphasize to our taxpayers that many of these recommendations were already being addressed by the Town Board. As required as part of our formal Corrective Action Plan that will be submitted to the State Comptroller, we will provide more specific examples of our approach to addressing these recommendations.

Despite the issues identified in the report, it is important to understand that the Town has met all of its financial obligations during the period of examination, and has maintained a relatively stable tax rate which is one of the lowest in the County.

Our objective has been, and continues to be, to identify areas for improvement, to implement policies and procedures that will ensure tasks are accomplished, and to ensure the Town is fiscally healthy.

Very truly yours,



Supervisor Jack Marren
Town of Victor

cc: Town Board Members

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

We had our entrance conference with the Town Supervisor, all Board members, all Finance staff, and a representative from the Town's current independent auditing firm. During our entrance conference, we clearly discussed our selected audit scope period. Our scope period was in line with our standard audit practices and avoided duplication of efforts of the two independent audit firms who had recently completed audits of the Town. Town officials all indicated that they were comfortable with the plan we had described.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of internal controls over the following areas: financial condition, cash receipts and disbursements, Supervisor's records and reports, purchasing and claims processing, payroll and personal services, information technology and revenues and cash receipts in the various Town Departments.

During our initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents such as Town policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial records and then analyzed it using computer-assisted techniques.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for inherent control risks. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected oversight of financial operations for further testing for the period January 1, 2009 through November 1, 2010.

To assess the Town Board's oversight of financial operations and the Supervisor's maintenance of financial records, we examined available records and reports for the stated scope period. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials responsible for financial oversight and for maintaining accounting records to gain an understanding of the Town's policies and procedures.
- We reviewed the Supervisor's management of financial operations and, on a sample basis, reviewed the accounting records that were available, including bank reconciliations, cash receipts and disbursements records, and annual budgets. We assessed the reliability and timeliness of financial information provided to the Board and the Board's procedures to provide oversight of Town finances.
- We reviewed available balance sheets, trial balances and operating statements.
- For a sample of 159 invoices totaling \$235,000, we traced supporting documentation to claims abstracts and Board approval. We judgmentally selected these 159 invoices based on services or goods received.

We conducted our 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.

APPENDIX D

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