

Town of Homer

Non-Payroll Disbursements

2023M-63 | August 2023

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Report Highlights

Town of Homer

Audit Objective

Determine whether the Town of Homer (Town) Board (Board) and Town Supervisor (Supervisor) provided adequate oversight of non-payroll disbursements.

Key Findings

The Board and Supervisor did not provide adequate oversight of non-payroll disbursements. As a result, Town officials made duplicate payments totaling \$79,806, and the Town has an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

The Board and/or Supervisor did not:

- Segregate the duties or implement compensating controls relating to non-payroll disbursements. As a result, checks and balances over the powers and duties of the Supervisor and Town Clerk (Clerk) were not established.
- Establish procedures to detect and prevent duplicate payments from occurring.
- Conduct or ensure an annual audit of the Supervisor's records and reports was performed, as required.

Key Recommendations

- Segregate non-payroll disbursements duties or implement adequate compensating controls.
- Review bank reconciliations, bank statements and canceled check images to ensure bank transactions are appropriate.
- Annually audit the Supervisor's records, as required.

Town officials disagreed with certain aspects of our findings but indicated they will take corrective action. Appendix B includes our comment on issues raised in the Town's response letter.

Background

The Town, located in Cortland County, is governed by an elected five-member Board, including the Supervisor. The Board is responsible for the general oversight of operations and finances, including establishing adequate controls over non-payroll disbursements.

The Supervisor, as chief fiscal officer, must disburse money and provide financial reports to the Board. The Board contracts with a certified public accounting (CPA) firm who assists the Supervisor with bookkeeping and other financial duties. The Board appointed a new Clerk in June 2021. The Clerk is responsible for preparing and certifying the Board-approved abstracts of audited claims and authorizing the Supervisor to make payments.

In January 2021, Town officials began using a bill payment system through the Town's financial institution to process non-payroll disbursements electronically. Instead of writing or printing and mailing checks, the financial institution processed non-payroll disbursements based on payment data the Clerk entered into the bill payment system.

Quick Facts

2022 - Appropriations	\$2.1 million
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Non-Payroll Disbursements in Audit Period

Number	826
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Amount	\$2 million
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Non-Payroll Disbursements Reviewed

Number	286
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Amount	\$1.4 million
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Audit Period

January 1, 2021 – June 30, 2022.

We extended the audit period to November 10, 2022 to determine whether specific reimbursements were deposited.

Non-Payroll Disbursements

How Should Town Officials Oversee Non-Payroll Disbursements?

The town supervisor is responsible for a town's day-to-day financial activities. A town supervisor must ensure that only approved non-payroll disbursements are paid and recorded in the accounting records. In a town that does not have a town comptroller, the town clerk is responsible for authorizing and directing the town supervisor to pay claims that have been audited and approved by the board. The separation of duties between the town supervisor and town clerk is intended to provide checks and balances over the powers and duties of these positions and is important for internal control purposes. When the town supervisor assigns their duties as chief fiscal officer to another individual, the town supervisor is responsible for ensuring that these duties are proper and adequately segregated.

A town board, responsible for the general management and control of town finances and operations, should ensure that internal controls over the non-payroll disbursements process are in place so that no one individual controls all aspects of the transaction without proper oversight. If it is not possible to segregate such duties, the town board must establish compensating controls, such as having someone independent of the process periodically review bank statements and canceled check images to determine whether there were any unusual disbursements, and review bank reconciliations to determine their accuracy and identify errors and outstanding checks. Pursuant to New York State Town Law Section 123, the town board must annually audit, or cause an annual audit of, the records and reports of any town officer or employee who received or disbursed money on the town's behalf, including the town supervisor. An audit identifies conditions in need of improvement and provides a review of financial operations, which is essential to effective oversight.

The town board should ensure that all claims are properly audited and are paid only after the town board approves payment. Adequate claims auditing procedures ensure that every claim against a town is subjected to an independent, thorough and deliberate review; each claim contains enough supporting documentation to determine whether it complies with statutory requirements; and amounts claimed are for legitimate and necessary expenditures. Employees should provide original records – such as invoices, packing slips and monthly statements – to those auditing claims. To avoid duplicate payments, the town board is required to determine whether the claims being reviewed have been paid before, in whole or in part. The town board may need to pay extra attention to vendors with charge accounts that issue frequent and similar bills to ensure that the current claim is not a duplicate of one previously paid.

When the town supervisor assigns their duties as chief fiscal officer to another individual, the town supervisor is responsible for ensuring that these duties are proper and adequately segregated.

The Board and Supervisor Did Not Segregate Non-Payroll Disbursements Duties

The Board and Supervisor did not segregate non-payroll disbursements duties or establish compensating controls. Generally, once a month, the Board audited and approved claims for payment. Upon Board approval, the Clerk created the abstract of audited claims. Under the Supervisor's direction, the Clerk:

- Entered approved claims into the electronic bill payment system,
- Submitted the payments to be processed, and
- Printed a bill payment transaction report.

Additionally, the Supervisor inappropriately gave the Clerk online access to the Supervisor's bank accounts, and user rights permitted the Clerk to make transfers from the accounts. The Clerk's and Supervisor's duties should be performed by separate individuals, because their individual responsibilities serve as checks against one another to help ensure funds are safeguarded. By allowing the Clerk to perform the duties of both offices, duties have not been adequately segregated, which increases the risk that funds could be misappropriated and improper transactions concealed.

The Clerk provided fund transfer reports, abstracts of audited claims and bill payment transaction reports to the Supervisor and one Board member the day after each Board meeting for their review. The Clerk also provided the CPA firm with a bill payment transaction report which the CPA firm used to update the Town's accounting records. The Clerk's ability to create abstracts of audited claims, initiate and approve electronic payments, perform bank transfers and select which reports were provided to the Supervisor, Board and CPA firm created a lack of segregation of duties over non-payroll disbursements.

The Supervisor told us he was trying to modernize the disbursements process and reduce the Town's postage expenditures by utilizing the online bill payment system. However, the bill payment system did not operate exactly how he envisioned. For example, the system would time out from inactivity, requiring the Clerk to reenter data to initiate payments, as there is no "save" feature. Because the Supervisor was not present when the Clerk entered data to initiate payments, the Supervisor was unable to review disbursements prior to payment. As a result, the Clerk processed payments without the Supervisor's direct oversight.

Additionally, the Supervisor told us he had the CPA firm maintain the Town's accounting records to help segregate duties. However, this was not a mitigating control because the Clerk either provided or controlled all information the CPA firm received and used to maintain the Town's accounting records. Until adequate oversight measures are implemented that address the lack of segregation of

The Clerk's and Supervisor's duties should be performed by separate individuals, because their individual responsibilities serve as checks against one another to help ensure funds are safeguarded.

duties, the risk continues that funds could be misappropriated and improper transactions concealed.

Because of the lack of segregated duties, we reviewed all \$4.3 million of electronic transfers made from the general fund, highway fund and trust and agency bank accounts during the audit period to determine whether funds were transferred to other Town bank accounts. We also compared the total dollar amounts from the Board-approved abstracts of audited claims to the total claims recorded in the Board meeting minutes and to the amounts transferred into the bill payment bank account for agreement. We found minor discrepancies which we discussed with Town officials.

The Board and Supervisor Did Not Provide Adequate Oversight of the Non-Payroll Disbursements Process

The Board and Supervisor did not provide adequate oversight over non-payroll disbursements. Each month, the Supervisor provided CPA firm-prepared bank account balances and budget-to-actual reports of the Town's revenues and expenditures to the Board. However, the Board and Supervisor did not periodically review bank statements, canceled check images or bank reconciliations. In addition, the Board did not conduct or ensure an annual audit of the Supervisor's records and reports was conducted, as required.

The Supervisor told us he did not look at bank statements which included canceled check images because the bank did not provide printed copies and a previous consultant indicated that online bank access to view the statements was unsecured. The Supervisor also told us that the report submitted by the CPA firm summarizing the bank account balances was a reconciliation; however, this report was not a true reconciliation because it did not factor in outstanding transactions recorded in the accounting system and bill payment system. We reviewed two months of the CPA firm's bank reconciliations and identified unreconciled variances. For example, the March 2022 reconciliation had an unreconciled variance of \$9,755 as a result of two outstanding checks not included in the reconciliation. A Board member told us he was unaware that the Board should review bank statements, canceled check images and bank reconciliations. In addition, the Supervisor and a Board member told us they were unaware of the annual audit requirement of the Supervisor's records and reports. As a result, the Town has an increased risk that errors or inappropriate transactions could occur and remain undetected.

The Board Approved and Disbursed Duplicate Payments

We reviewed 286 non-payroll disbursements totaling approximately \$1.4 million¹ to determine whether they were approved by the Board and for appropriate Town purposes. Aside from minor exceptions, which we discussed with Town officials, the non-payroll disbursements we reviewed were for appropriate Town purposes and generally approved by the Board prior to payment. However, we identified eight duplicate payments for non-payroll disbursements totaling \$79,806:

- The Board approved a \$76,901 payment for highway equipment, but the bill payment vendor issued two \$76,901 payments. The Board was unaware that the duplicate payment was made until the vendor that received the duplicate payment returned the second check. The Supervisor was unable to provide an explanation on how or why the bill payment vendor issued a duplicate payment.
- Five non-payroll disbursements totaling \$2,558 were approved twice by the Board, processed and accepted in both instances by the vendor. These payments were for vehicle parts, office supplies, diesel fuel and outdoor lighting. The Town received reimbursements totaling \$2,400 for three of the five duplicate payments. However, the Town was not aware of the two remaining duplicate payments and did not receive refunds totaling \$158.
- Two non-payroll disbursements totaling \$347 were approved twice by the Board, processed and submitted to the vendor for payment. However, the vendor never accepted the second payment. These payments were for landfill fees and supplies. There was no documentation to determine why these payments were not accepted; however, the risk remains that the vendor could have accepted the duplicate payment.

One Board member told us he was unaware that the Board audit did not identify all duplicate payments. However, the Board is responsible for auditing all claims and ensuring the claims contain appropriate documentation and are not a duplicate of one previously paid, in whole or in part. Additionally, because the Board did not review bank statements, canceled check images and bank reconciliations, certain duplicate payments went unnoticed. When claims are paid in duplicate, the Town expends funds for goods or services not provided. If Town officials identify duplicate payments already disbursed, additional resources are required to recoup the funds.

[W]e identified eight duplicate payments for non-payroll disbursements totaling \$79,806.

¹ Refer to Appendix C for information on our sampling methodology.

What Do We Recommend?

The Board and Supervisor should:

1. Adequately segregate non-payroll disbursements duties. If segregating duties is not possible, implement compensating controls.

The Board should:

2. Review bank reconciliations, bank statements and canceled check images to identify any misappropriated funds, improper transactions, errors or outstanding checks to ensure that bank transactions are appropriate.
3. Perform, or obtain, an annual audit of the Supervisor's records and reports, as required.
4. Review the duplicate payments identified in this report and seek reimbursement, if necessary.
5. Establish procedures to detect and prevent the Board approval and payment of duplicate claims. Such procedures could include requiring only original invoices be submitted for approval of payment and reviewing prior months' abstracts, bill payment history reports and bank statements prior to processing claims.

The Supervisor should:

6. Ensure that any individuals performing the Supervisor's financial duties do not create impairments to designed internal controls, such as those duties intended to be separated between town supervisors and town clerks.
7. Eliminate the Clerk's ability to transfer funds from the Supervisor's bank accounts.

Appendix A: Response From Town Officials



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Town Hall Building

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Homer, New York 13077
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Email: clerk@townofhomer.org

July 28, 2023

[REDACTED]
[REDACTED]
Office of the State Comptroller
Binghamton Regional Office
44 Hawley Street - Suite 1702
Binghamton, NY 13901-4417
Phone: 607-721-8306
Fax: 607-721-8313

RE: Town of Homer – Non-Payroll Disbursements
Report Examination 2023M-63

Dear Sir or Madam:

TOWN OF HOMER'S RESPONSE TO
NON-PAYROLL DISBURSEMENTS EXAMINATION

The examination concluded that the Board and Supervisor did not segregate non-payroll disbursement duties, the Board and Supervisor did not provide adequate oversight of the non-payroll disbursement process and the Board approved and disbursed duplicate payments. The report also provided seven recommendations for the Town.

The Town recognizes the need for separation of duties when it comes to the non-payroll disbursements. The Town believed by having the Board review and approve all disbursements, then review the payment transactions report the following day it had achieved a separation of duties. In addition to the above the Board also retained the services of a third party to prepare the bank reconciliations. These steps were taken to provide oversight and have separation of duties.

The Board will be implementing the following changes to strengthen the internal controls of the town.

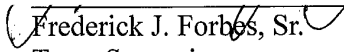
- 1) The Board will annually prepare an audit of the Supervisor's records and reports.
- 2) The Board will review the bank reconciliations on a monthly basis.
- 3) The Supervisor or the Deputy Supervisor will initiate all bank transfers.

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July 28, 2023

The examination contends that the Town approved and disbursed \$79,806 in duplicate payments. The Town disagrees with this conclusion. The Board approved a \$76,901 payment for highway equipment. The payment was made through the bill payment system. The bill payment system issued this payment as a credit card which the vendor rejected. The system then reissued the payment as a check. There was never a duplicate payment. The funds only came out of the account once. This simply was an error on the part of the bill paying company. As with any new system there was a learning period for both the Town and the bill payment company. These items have been identified and corrected.

See Note 1 Page 9

Sincerely,



Frederick J. Forbes, Sr.
Town Supervisor

7-28-23
Date

Appendix B: OSC Comment on the Town's Response

Note 1

Our audit identified \$79,806 in duplicate payments. Regarding the \$76,901 duplicate payment, our audit report states that the Board approved one payment, but the bill payment vendor issued two payments for \$76,901 each. More specifically, an electronic check was paid to the vendor and deducted from the Town's bank account on August 3, 2021. In addition, a separate hard copy check was mailed to the same vendor. On August 17, 2021, the vendor returned the hard copy check to the Town with a note to void it and stating payment was already accepted via the electronic check mentioned above.

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and reviewed financial records, reports and Board meeting minutes to determine whether the Board provided adequate oversight over the non-payroll disbursements process.
- We used our professional judgment to select a sample of 145 disbursements totaling \$877,407 during four months of the audit period to include various times of the year, fiscal year end and audit period end. We compared all disbursements from May 2021, July 2021, December 2021 and June 2022, from canceled check images to Board-approved abstracts to determine whether they were approved and for appropriate Town purposes.
- We reviewed all canceled check images from the bank statements and selected all 22 non-payroll disbursements totaling \$3,150 paid to the Town Supervisor, Board members, Highway Superintendent, Town Clerk, Deputy Town Clerk and Code Enforcement Officer. We compared these payments to the Board-approved abstracts to determine whether they were approved and for appropriate Town purposes.
- We used our professional judgment, based on outlier payment amounts, to select a sample of 27 disbursements from canceled check images paid to utility vendors totaling \$13,307 to determine whether the payments were Board-approved and for appropriate Town purposes.
- We reviewed the vendor payment data and canceled check images and selected all payments exceeding \$10,000, for a total of 12 payments totaling \$252,836 paid during the audit period. We compared each payment to the abstracts and invoices to determine whether the payments were Board-approved and for appropriate Town purposes.
- We selected all 65 disbursements totaling \$192,225 paid during June 2021 and May 2022 from the vendor payment report and compared each payment to Board-approved abstracts and canceled check images to determine whether they were approved.
- We compared all 200 electronic transfers totaling \$4.3 million issued from the general fund, highway fund and trust and agency bank accounts during the audit period to determine whether the funds were deposited into another Town bank account.
- We compared the amount per the abstracts to the amount transferred to the bill payment checking account and amount reported in the Board meeting minutes as authorized to determine whether there were any changes

made to the approved abstracts and whether there were additional funds transferred to the bill pay account.

- We reviewed two months of CPA firm-prepared bill payment bank account reconciliations based on the largest register balance and audit period end. We prepared bank reconciliations for the same two months and compared them with those prepared by the CPA firm to determine whether the bank account was accurately reconciled and the outstanding check lists were correct.
- We reviewed bank statements, vendor payment data and the bill payment transaction reports for the audit period to identify payments that were duplicated. We identified eight duplicate payments (for a total of 16 payments reviewed totaling \$159,600).² We then utilized charge account and bank statement records to determine whether any duplicate payments were reimbursed or credited to the Town.

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.

² The initial payment for one of these duplicate payments, totaling \$76,901, was included in our sample of 145 disbursements totaling \$877,407 identified above.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

www.osc.state.ny.us/local-government/publications

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

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/files/local-government/publications/pdf/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

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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Local Government and School Accountability Help Line: (866) 321-8503

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