



**H. Carl McCall
Comptroller**

State of New York
Office of the State Comptroller

Town of Ischua

Report of Examination

98M-304

Division of Municipal Affairs
Bureau of Examinations

**TO THE SUPERVISOR AND MEMBERS
OF THE TOWN BOARD
OF THE TOWN OF ISCHUA,
CATTARAUGUS COUNTY, NEW YORK:**

Among my top priorities as the State Comptroller is to maintain a strong partnership between my office and the local governments of New York State. One of the main objectives of this partnership is to assist local governments in improving their financial condition and strengthening their financial management systems.

The audit reports issued by my office are an important component in accomplishing this objective. These reports are expected to be a resource to you. They are designed to identify current and emerging fiscal problems and provide recommendations for improvement.

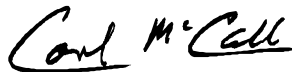
Prudent fiscal management, sound fiscal policy and a commitment to working together will enable us to serve the taxpayers more effectively by making better use of our limited resources. Toward this end, I look forward to working with your municipality and all other local governments throughout the State.

To make our audit report more useful and understandable, it now includes:

- ◆ Table of contents;
- ◆ Executive summary to highlight recommendations; and
- ◆ Headings that separate Findings and Recommendations.

If my office can be of assistance to you or if you have any questions concerning this audit report, please feel free to contact the local area office for your county listed at the back of this report.

Sincerely,

A handwritten signature in black ink that reads "Carl McCall". The signature is written in a cursive style with a large initial "C" and "M".

H. Carl McCall

TABLE OF CONTENTS

Section	Page
Executive Summary	3
Summary of Recommendations	3
Authority and Scope Letter	5
Findings and Recommendations	
Internal Control and Compliance	
Books and Records	7
Annual Board Audit of Records	8
Budgetary Practices	9
Code of Ethics	11
Cash Management	11
Lack of Purchasing Policy	12
Claims Documentation and Board Audit of Claims	12
Appendix	14

EXECUTIVE SUMMARY

Our examination disclosed findings which should be reviewed by the Town Board for appropriate action. Good management practices require that town officials take prompt action concerning our recommendations. We believe prompt action by town officials will protect the town's resources from possible loss or improper use, and ensure its compliance with appropriate statutory requirements. For the ready reference of the reader, the recommendations are summarized in the following section. However, this is not meant to serve as a substitute for reviewing the Findings and Recommendations section of the report, which begins on page 7. Please note that the seven findings in this report, are similar to findings contained in our prior Report of Examination issued June 9, 1995.

The Town Board should prepare a plan of action that addresses our recommendations and forward the plan to our office within ninety days. For guidance in preparing the plan of action, you may refer to applicable sections contained in the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

We are available to assist you in providing guidance in preparing the plan. The local area office for your county is listed in the back of this report.

SUMMARY OF RECOMMENDATIONS

● Internal Control and Compliance ●

An effective system of internal control is necessary so that the Town Board can have reasonable assurance that resources are safeguarded and that transactions are executed in accordance with management's authorization, are in accordance with statutory requirements and are properly recorded.

Failure to establish proper controls could expose the town's resources to loss or improper use. The following recommendations help ensure that the town's resources are not at risk and that transactions are properly authorized and are in compliance with statutory requirements.

Books and Records (For Full Discussion See Commentary, Page 7)

The supervisor and Town Board should take necessary actions (including reviewing the format and content of accounting records and the reporting system, and obtaining professional assistance where needed) in order to assure that the town's records and reports accurately reflect the fiscal activity of the town.

Annual Board Audit of Records *(For Full Discussion See Commentary, Page 8)*

The Town Board should develop procedures to ensure that an annual audit is conducted of the records and reports of all town officers and employees who receive or disburse moneys.

Budgetary Practices *(For Full Discussion See Commentary, Page 9)*

The Budget Officer should prepare, and the Town Board should adopt, budgets that accurately reflect the anticipated annual spending, funding and tax plan of the various town funds. Also, the Town Board should institute procedures which would allow for the periodic (monthly) monitoring of the town's budget, and require that available appropriations be verified or provided prior to an expenditure being made.

Code of Ethics *(For Full Discussion See Commentary, Page 11)*

The Town Board should formulate and adopt a Code of Ethics. After adoption, a copy of the code should be distributed to all town officers and employees. Also, a copy should be filed with the State Comptroller.

Cash Management *(For Full Discussion See Commentary, Page 11)*

The Town Board should take steps necessary to ensure that its deposits and investments are adequately secured. Among these steps are adopting an investment policy, and the execution of a security and custodial agreement.

Lack of Purchasing Policy *(For Full Discussion See Commentary, Page 12)*

The Town Board should adopt written procurement policies and procedures to help assure the prudent and economic use of public moneys, and to facilitate the acquisition of goods and services of the desired quality at the lowest possible cost.

Claims Documentation and Board Audit of Claims *(For Full Discussion See Commentary, Page 12)*

The Town Board should assure that all claim vouchers submitted for payment are properly itemized and are approved by the individual whose action gave rise to the claim. Also, the abstract of audited claims should include the appropriation account code chargeable, and be signed by the town clerk.

Report: 98M-304
Filed: December 11, 1998

AUTHORITY AND SCOPE LETTER

**TO THE SUPERVISOR AND MEMBERS
OF THE TOWN BOARD
OF THE TOWN OF ISCHUA,
CATTARAUGUS COUNTY, NEW YORK:**

Pursuant to the State Constitution, Article V, §1 and further authority vested in the State Comptroller by Article 3 of the General Municipal Law, we have examined the financial affairs of the Town of Ischua.

Our responsibilities are to review the financial condition and fiscal operations of the town in order to identify areas needing improvement and to inform local officials and the public of our findings and recommendations. Consistent with these responsibilities, the objectives of this examination were to identify conditions indicating possible fiscal stress and to test for noncompliance with certain finance related statutory and regulatory provisions as well as guidance of the Office of the State Comptroller. It was not our objective to, and we do not, express an Audit Opinion on the financial statements of the town or provide assurance as to either its internal control structure or the extent of its compliance with statutory and regulatory requirements as well as guidance of the Office of the State Comptroller.

The management of the town is responsible for its financial affairs and for safeguarding its resources. This responsibility includes establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that resources are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and are properly recorded; that appropriate financial reports are prepared; that applicable laws, rules and regulations are observed; and that appropriate corrective action is taken in response to audit findings. Nevertheless, errors, irregularities, or instances of noncompliance may occur and not be detected because of inherent limitations in any internal control structure.

In determining the scope of our examination, we conducted an initial audit survey for the town's fiscal operation for the period January 1, 1997 through June 12, 1998. We obtained an overview of the operations through inquiry, analytical procedures, observations and the inspection of records and reports. In this process, we considered the town's financial condition, its internal controls, applicable statutory provisions, guidance of the Office of the State Comptroller and other relevant information. As a result of this planning process, we limited our examination to the following areas:

- Financial Condition
- Chief Fiscal Officer's Records and Reports
- Cash Management/Receipts and Disbursements
- Cash Management/Deposits and Investments
- Purchasing
- Claims Processing
- Payroll
- Retirement Reporting
- Fixed Assets

We conducted our examination in accordance with Generally Accepted Government Auditing Standards (Government Auditing Standards, issued by the Comptroller General of the United States). For the areas selected, we gained an understanding of the town's internal control structure. Based upon this understanding, we assessed risks and designed and performed such tests which we considered necessary to satisfy our audit objectives. The period covered by our procedures is noted in each of the findings contained in the Findings and Recommendation section of this report. We believe that our examination provides a reasonable basis for our report.

The results of our examination procedures disclosed certain findings and recommendations which are presented in this Report of Examination. These findings and recommendations have been discussed with local officials and their comments have been considered in preparing this report.

The Town Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Town Board should prepare a plan of action that addresses the recommendations in this report. We encourage the Town Board to prepare a corrective action plan which would be available for public review in the town clerk's office and the Office of the State Comptroller.

Very truly yours,

Office of the State Comptroller

OFFICE OF THE STATE COMPTROLLER
DIVISION OF MUNICIPAL AFFAIRS

**Albany, New York
July 8, 1998**

FINDINGS AND RECOMMENDATIONS

● Internal Control and Compliance ●

Books and Records

Finding

As of June 12, 1998, the books, records, ledgers and journals maintained by the town supervisors for 1997 and 1998 were not sufficient to properly account for the fiscal activity of the town. The condition of the records contributed to the difficulty encountered in preparing annual financial reports and the inaccuracy of information included in the 1997 Draft Annual Update Document (AUD).

Local officials requested our assistance in preparing the 1997 Annual Update Document (AUD). We reviewed the draft AUD and the supporting records, and compared these to underlying bank activity, and noted various errors. In certain cases the draft AUD did not agree with books and records. In other cases neither the draft AUD nor the books and records properly reflected the underlying actual transactions. Examples are noted in this table.

Account #	Description	Amount per Books, Ledger, or Journal	Amount per Draft of AUD prepared by town personnel	Amount per Audit (rounded)
A1090	Tax fees	\$ 1,207.19	\$ 2,215.00	\$ 1,207.00
A2610	Justice Fees	\$ 3,585.00	\$ 359.00	\$ 3,700.00
A1120	Sales Tax	\$ 57,845.53	\$ 82,846.00	\$ 57,846.00
A2401	Interest Earnings	not maintained	\$ 4,830.00	\$ 4,830.00
A3001	State Aid	not maintained	\$ 3,626.00	\$ 3,626.00
A1620.2	Buildings Expenditure	\$ 0.00	\$ 6,418.00	\$ 0.00
A5132.4	Garage Expenditures	\$ 6,417.94	\$ 6,418.00	\$ 6,418.00
A8810.4	Cemetery Mowing	\$ 0.00	\$ 1,375.00	\$ 1,375.00
A9089	Interfund Transfers	\$ 0.00	\$ 0.00	\$ 80,000.00

The Cash Disbursement Journal did not contain any reference to the account chargeable for each check and no expenditure account code was noted on the individual vouchers or the abstract of audited vouchers. In addition, classification ledgers were incomplete in 1997 because they did not contain certain revenue and expenditure accounts. These include general and highway fund interest earnings, general state aid, interfund transfers out and interfund transfers in, retirement system expenditures, FICA expenditures and highway personal services accounts. Classification ledgers are not currently maintained for 1998 Revenues and

Expenditures.

The condition of the records contributed to the budgetary and monthly reporting concerns noted in a separate finding titled “Budgetary Practices”.

A similar finding was included in our prior Report of Examination.

Recommendation

The supervisor and Town Board should take necessary actions (including reviewing the format and content of accounting records and the reporting system, and obtaining professional assistance where needed) in order to assure that the town’s records and reports accurately reflect the fiscal activity of the town.

Annual Board Audit of Records

Finding

As of June 12, 1998, there was no indication that the Town Board had audited the records of all town officers and employees who received or disbursed money during 1996 and 1997.

Town Law, Section 123 requires the Town Board to annually conduct an audit of the books and records of all such officials or to engage the services of an accountant to perform this function.

An annual accounting to, and examination by, the Town Board provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions, and gives the Town Board the opportunity to monitor the fiscal operations of the town. Failure of the Town Board to exercise this oversight function could result in significant errors, omissions or defalcations going undetected.

A similar finding was included in our prior Report of Examination.

Recommendation

The Town Board should develop procedures to ensure that an annual audit is conducted of the records and reports of all town officers and employees who receive or disburse moneys.

Budgetary Practices

Finding

Certain components of adopted budgets did not reflect realistic estimates of anticipated fiscal operations. In addition, there was no indication that the results of operations were periodically monitored against adopted budgets because monthly monitoring reports were not available for Town Board review. Consequently, 1997 expenditures exceeded amounts available in the budget for certain appropriation accounts.

We noted several estimates for revenues and appropriations in adopted budgets for 1997 and 1998 which do not appear to be supported by an underlying analysis of actual expected results as follows.

- ◆ The 1997 and 1998 General Fund budgets each included appropriations in the amount of \$4,000 for “Street Lighting”. Since this activity is accounted for in the Street Light Fund and there is a separate tax levy for this purpose, there should not be any provision for this activity in the General Fund.
- ◆ The General Fund budgets for 1997 and 1998 also included an appropriation in the amount of \$9,000 for Hospitalization Insurance. Since the town only provides hospitalization insurance to two of its highway employees, this activity should be budgeted for in the Highway Fund only. It should be noted that the town also included a provision in the Highway Fund budget for this purpose.
- ◆ The 1997 General Fund budget included a revenue estimate for Sales Tax in the amount of \$25,000. However, based on prior years’ experience, we believe that a revenue estimate of \$50,000 would have been a more realistic estimate.
- ◆ The 1998 Highway Fund budget anticipated using \$80,000 of the prior year’s fund balance as a financing source. However, the fund balance at December 31, 1997 was only \$50,000.

We noted that the supervisor did not prepare, and the board did not receive, a monthly budgetary report. This report would provide a comparison of the budgeted revenues and expenditures with the actual year-to-date revenues and expenditures. Such a report would assist the Town Board in monitoring the fiscal activity of the town.

The following individual line items were over expended during 1997 without any specific documentation of Town Board budgetary approval.

Account	Budget	Actual	Variance
General Fund Interfund Transfers to Other Funds	\$ 0	\$ 80,000	\$ (80,000)
Payments to Cattaraugus County for Conrail Settlement	\$ 0	\$ 8,974	\$ (8,974)
A5132.4 Buildings	\$ 3,000	\$ 6,418	\$ (3,418)
A8810.4 Cemetery Mowing	\$ 0	\$ 1,375	\$ (1,375)
Highway Payrolls	\$ 31,000	\$ 38,620	\$ (7,620)
D5130.2 and D5130.4 Machinery	\$ 51,000	\$ 135,100	\$ (84,100)
D5142.4 Highway Snow Removal	\$ 12,300	\$ 22,369	\$ (10,069)
D9060.8 Hospitalization Insurance	\$ 4,500	\$ 5,831	\$ (1,331)

Town Law, Section 117 provides that no expenditure shall be made nor any contract involving the expenditure of money or the incurring of any monetary liability be entered into unless an amount has been appropriated for the particular purpose and is available. Town Law, Section 125(1) requires that the supervisor keep a separate account for which funds are appropriated or raised by taxation. Also, Town Law, Section 125 provides, in part, that the supervisor shall not permit any fund or appropriation account to be overdrawn at any time.

The annual operating budget of a town should represent an orderly financial plan for the operation of town activities. The appropriations in it represent choices by the Town Board as to the allocation of town resources to specific purposes and establish spending limits for these various purposes. Therefore, the requirement that appropriations be available prior to a commitment being made is more than just a legal formality. This is also a requirement of effective budgetary control, needed to ensure that moneys are available for expenditure for each of the purposes enumerated in the budget. Failure to limit expenditures to available appropriations creates the risk that deficits could occur and that cash may not be available when required for necessary expenditures.

A similar finding was included in our prior Report of Examination.

Recommendation

The Budget Officer should prepare, and the Town Board should adopt, budgets that accurately reflect the anticipated annual spending, funding and tax plan of the various town funds. Also, the Town Board should institute procedures which would allow for the periodic (monthly) monitoring of the town's budget, and require that available appropriations be verified or provided prior to an expenditure being made.

Code of Ethics

Finding

As of June 12, 1998, there was no indication that the Town Board had adopted a Code of Ethics.

The governing board of the town is required to adopt a Code of Ethics (General Municipal Law, §806). Such a code provides guidance for officers and employees with respect to disclosures of interest in legislation before the local governing body, holding of investments in conflict with official duties, future employment, and such other standards relating to the conduct of town officers and employees as may be deemed advisable.

A similar finding was included in our prior two Reports of Examination.

Recommendation

The Town Board should formulate and adopt a Code of Ethics. After adoption, a copy of the code should be distributed to all town officers and employees. Also, a copy should be filed with the State Comptroller.

Cash Management

Finding

As of June 12, 1998, there was no indication that the town had adopted or established a written investment policy to provide guidance in the deposit and investment of town moneys. Also, the town had not entered into a written security and custodial agreement with its depository pertaining to the pledging of securities to act as collateral to secure the town's deposits and investments.

Section 39 of the General Municipal Law requires the town to adopt a written investment policy which, among other things, should include procedures for monitoring pledged collateral. Also, section 10 and 11 requires that all town deposits and investments in excess of F.D.I.C insurance coverage should be secured by a pledge of collateral or an eligible letter of credit or surety bond; and that there be a security agreement that provides the terms and conditions under which any securities pledged are to be held.

The objectives of a written investment policy are to provide reasonable assurance:

- ◆ That assets are safeguarded.
- ◆ That investments will mature when cash is required to finance operations.
- ◆ That there will be a competitive rate of return on investments.

For guidance in this area, we refer town officials to Section 2 of the *Financial*

A similar finding was included in our two prior Reports of Examination.

Recommendation

The Town Board should take steps necessary to ensure that its deposits and investments are adequately secured. Among these steps are adopting an investment policy, and the execution of a security and custodial agreement.

Lack of Purchasing Policy

Finding

As of June 12, 1998, procurement policies and procedures had not been formulated and adopted in accordance with statutory requirements.

The governing board of every political subdivision is required to adopt policies and procedures governing all procurements not required by law to be made pursuant to competitive bidding requirements (General Municipal Law, §104-b).

Complete procurement policies and procedures would help to ensure the prudent and economical use of public moneys and facilitate the acquisition of goods and services of the desired quality at the lowest cost.

For guidance in this area, town officials should refer to a publication issued by the Office of the State Comptroller, entitled *Financial Management Guide for Local Governments*.

A similar finding was included in our prior Report of Examination.

Recommendation

The Town Board should adopt written procurement policies and procedures to help assure the prudent and economic use of public moneys, and to facilitate the acquisition of goods and services of the desired quality at the lowest possible cost.

Claims Documentation and Board Audit of Claims

Finding

Our examination of claims for compliance with procedural controls over the verification and approval of claim vouchers disclosed certain deficiencies.

- ◆ In one test of 18 claims, we noted 13 that were not approved by the appropriate responsible department head.
- ◆ The appropriation account code was not noted on the abstract of audited vouchers.
- ◆ We noted that the abstract of audited vouchers was not signed by the town clerk.
- ◆ We also noted that the following payments were made without evidence that a voucher had been submitted, audited and allowed by the board; and, in addition, the amounts were not listed on the abstract of audited vouchers.
 - ◇ Five payments for cemetery mowing services totaling \$1,375.
 - ◇ Five claims for hospitalization insurance coverage totaling \$5,831.
 - ◇ Early Payoff in 1997 in the amount of \$13,473.55 for the final payment of a lease.

Except as otherwise provided by law (not applicable here), no claim shall be paid unless an itemized voucher shall have been presented to the Town Board and shall have been audited and allowed. Such voucher shall be accompanied by a statement of the officer or employee whose action gave rise or origin to the claim that the claim was approved and that the item or service was actually received (Town Law, §118(1)). When a claim has been audited by the Town Board, the town clerk shall file the same in numerical order and prepare an abstract of the audited claims specifying the number of the claim, the name of the claimant, the amount allowed and the fund and appropriation account chargeable therewith, directed to the supervisor, authorizing and directing him to pay to the claimant the amount allowed upon his claim (Town Law, §119(1)).

A properly itemized, approved voucher allows the Town Board to effectively audit claims against the town. A complete abstract of audited vouchers (including the town clerk's signature and the account code chargeable) is an additional control to assure that only audited claims are paid by the supervisor. Placing the account code on the abstracts assists in the posting of financial information into the books of account.

A similar finding was included in our prior Report of Examination.

Recommendation

The Town Board should assure that all claim vouchers submitted for payment are properly itemized and are approved by the individual whose action gave rise to the claim. Also, the abstract of audited claims should include the appropriation account code chargeable, and be signed by the town clerk.

APPENDIX

OFFICE OF THE STATE COMPTROLLER DIVISION OF MUNICIPAL AFFAIRS

Patricia Lamb McCarthy, Deputy Comptroller
Richard L. Luke, Assistant Deputy Comptroller
Jeffrey P. Swain, Assistant Deputy Comptroller

LOCAL AREA OFFICE LISTING

BUFFALO AREA OFFICE

David H. Slusarz, Chief Examiner
Office of the State Comptroller
1050 Ellicott Square Building
295 Main Street
Buffalo, New York 14203
(716) 847-3647 Fax (716) 847-3643
Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming

SYRACUSE AREA OFFICE

Norman E. Bagley, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202
(315) 428-4192 Fax (315) 426-2119
Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence

GLENS FALLS AREA OFFICE

Richard H. Dinolfo, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801
(518) 793-0057 Fax (518) 793-5797
Clinton, Essex, Franklin, Fulton,
Hamilton, Montgomery, Rensselaer,
Warren, Washington

HAUPPAUGE AREA OFFICE

Gregory J. D'Alessandro, Chief Examiner
Office of the State Comptroller
NYS Office Bldg. Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(516) 952-6534 Fax (516) 952-6530
Nassau, Rockland, Suffolk, Westchester

ROCHESTER AREA OFFICE

Gregory L. Smith, Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street - Suite 522
Rochester, New York 14614
(716) 454-2460 Fax (716) 454-3545
Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben,
Wayne, Yates

BINGHAMTON AREA OFFICE

Patrick Carbone, Principal Examiner
Office of the State Comptroller
State Office Bldg. Room 1701
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Broome, Chenango, Cortland, Delaware,
Otsego, Sullivan, Tioga, Tompkins

ALBANY AREA OFFICE

Thomas J. Kelly, Jr., Chief Examiner
Office of the State Comptroller
22 Computer Drive West
Albany, New York 12205
(518) 438-0093 Fax (518) 438-0367
Albany, Columbia, Dutchess, Greene,
Orange, Putnam, Saratoga,
Schenectady, Schoharie, Ulster