



Town of Springwater

Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

January 1, 2009 — June 23, 2011

2011M-195



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2012

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Springwater, entitled Internal Controls Over Selected 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 Springwater (Town) is located in Livingston County and has a population of about 2,400 residents. The Town is governed by a Board of five elected members. The Supervisor is the chief financial officer of the Town. The Town hired an outside accounting firm to maintain the Town's accounting records.

The Town has one water and sewer district in operation. The water and sewer Superintendent (Superintendent) is responsible for reading meters, preparing bills, collecting rents, making deposits, and maintenance of water and sewer infrastructures.

Scope and Objective

The objective of our audit was to evaluate the internal controls over selected financial operations for the period January 1, 2009 to June 23, 2011. We expanded our scope back to December 1, 2008 to review a property purchase. Our audit addressed the following related questions:

- Are internal controls over purchasing appropriately designed and operating effectively to safeguard Town assets?
- Are internal controls over water and sewer district operations appropriately designed and operating effectively to adequately safeguard Town assets?
- Did the Board provide the required oversight of financial operations?

Audit Results

Town officials are generally following the Board adopted procurement policy. However, we found that the Town purchased property for almost \$13,000 without the public's knowledge, has not put this property into use for a Town purpose, and may incur additional costs to keep it. Town officials also purchased a truck for \$91,750, without ensuring that bid specifications solicited competition.

There is a lack of segregation of duties over the water and sewer billing and collections as the Superintendent performs all the functions of billing and collection process, with no oversight. Also, the Board has not established and adopted written policies and procedures governing the billing, collection, and enforcement of water rents, establishing sewer charges, and billing adjustments. The Board also does not provide oversight of billing adjustments and the re-levying of unpaid accounts. As a result, there is an increased risk that errors and irregularities may occur and will not be detected and corrected in a timely manner.

The Board did not carry out their statutory responsibility to audit the books and records of Town officers and employees. In addition, the Town does not have a contractual agreement with the Firm performing services for the Town. Also, the Supervisor did not adequately oversee the Firm performing his financial duties and ensure that Town financial records were readily available for public inspection.

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 that they have taken, or plan to initiate corrective action.

Introduction

Background

The Town of Springwater (Town) is located in Livingston County and has a population of about 2,400 residents. For the 2011 fiscal year the Town had budgeted appropriations of approximately \$1.6 million, to be funded primarily with real property taxes, user charges and State aid. The Town is governed by an elected five member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town moneys, maintaining accounting records and providing financial reports to the Board. Although the Board is primarily responsible for internal controls, the Supervisor and department heads share this responsibility.

The Town has one water and sewer district in operation. The water and sewer Superintendent (Superintendent) is responsible for reading meters, preparing bills, collecting rents, making deposits, and maintenance of water and sewer infrastructures.

Objective

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

- Are internal controls over purchasing appropriately designed and operating effectively to safeguard Town assets?
- Are internal controls over water and sewer district operations appropriately designed and operating effectively to adequately safeguard Town assets?
- Did the Board provide the required oversight of financial operations?

Scope and Methodology

We examined internal controls over water and sewer district operations and purchasing activities for the period January 1, 2009 to June 23, 2011. We expanded our scope back to December 1, 2008 to review a property purchase.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of
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 that they have taken, or plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded 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 (governing body) to make this plan available for public review in the Town Clerk's office.

Purchasing

The objectives of a procurement process are to obtain goods and services at the desired quality, appropriate quantity, and lowest cost, in accordance with applicable Board and legal requirements. A good system of internal controls consists of policies, practices and procedures intended to provide reasonable assurance that the Town is using its resources effectively, and that it is complying with applicable laws and regulations. Town officials are responsible for implementing internal controls that ensure the prudent and economical use of Town moneys when procuring goods and services and that protect against favoritism, extravagance, fraud and corruption. This helps ensure that taxpayer dollars are expended in the most efficient manner.

Town officials are generally following the Board adopted procurement policy. However, we found that the Town purchased property for almost \$13,000 without the public's knowledge, has not put this property into use for a Town purpose, and may incur additional costs to keep it. Town officials also purchased a truck for \$91,750, without ensuring that bid specifications solicited competition.

Purchase of Real Property

The Town is authorized to acquire buildings for town purposes. The purchase must be approved by Board resolution at an opening meeting. The resolution is also required to be made subject to a permissive referendum.¹

According to the January 2009 Board minutes, a Board member asked the Supervisor if it was true the Town had purchased property and the Board was not informed regarding this purchase. Per the minutes, the Supervisor stated this was mentioned in executive session at the previous Board meeting. In a conversation on June 23, 2011 with our Office, the Supervisor stated the property was voted on in executive session. The Supervisor said the building was acquired to give the Town control over its future use. The Town spent a total of \$12,981 on the property purchase which includes the following expenses:

- Purchased property commonly known as the “Wormuth” property, located on the corner of Route 15 and 15A, for \$6,500 on December 17, 2008. The purchase was not on a

¹ Within 10 days after the adoption by the Board of any resolution which is subject to a permissive referendum the Town Clerk must post and publish a notice which includes the date of the adoption of the resolution and contains a summary resolution concisely stating the purpose and effect thereof. The notice must also specify that the resolution was adopted subject to a permissive referendum.

voucher, listed on the abstract or approved by the Board and the payment was made to an individual that did not own the property.² The Supervisor could not provide us with a reason for this payment.

- Recording fees of \$135 that was not on a voucher, listed on the abstract or approved by the Board in April 2009.
- Unpaid taxes for \$4,698, paid October 28, 2010, were not listed on November 5, 2010 abstract. An approved voucher was found in the Supervisor's records, which were not maintained on site. The voucher in the Town Clerk's records was not approved by the Board.
- Unpaid taxes for \$1,648, paid January 11, 2010, were included on abstract and approved, but not dated by the Board.

The payment for the property was made to a private individual. This individual originally bid on the property at the County tax sale and lost his interest when he failed to complete the transaction. The Livingston County Ways and Means Committee authorized the transfer of ownership from the County to the Town of Springwater on December 17, 2008.³ The Town received the property from the County.

On May 9, 2011, the Board adopted a resolution authorizing the purchase of real property in December 2008, in which they failed to make a formal resolution. To date, the property is not being utilized for a town purpose and there is no clear purpose for its use.

The Supervisor could not provide a Town purpose to buy this land, and it was not approved by the Board at a public meeting. Neither could he inform us why he made a payment to an individual with no interest in the land.

Truck Purchase

General Municipal Law (GML) requires the advertisement for bids for purchases in excess of \$20,000.⁴ Previously, and during the 2009 fiscal year, the threshold was \$10,000. One of the goals of

² Records indicated that the payment to this individual was made for the purchase of land. County employees indicated this individual had purchased this property at auction for \$9,500, and paid \$4,000 of the amount owed, but forfeited the property for non-payment of the remainder due. Therefore, this individual never took title to the property from the County.

³ Town took ownership on April 10, 2009 when the County issued a tax deed to the Town.

⁴ An exception to competitive bidding is to purchase an item off the state contract, because this item was previously bid through the State's competitive bidding process.

competitive bidding is to solicit the maximum amount of competition from qualified, responsible potential bidders. Specifications provide a common standard for bidders to base their proposals. Specifications may not be fixed, restricted or manipulated to shut out competitive bidding or to permit unfair advantage to a particular vendor. If brand names are used the specifications should make clear that equivalent products are acceptable. However, in certain circumstances, specifications may be drawn to favor one manufacturer over another if such item is required in the public interest.⁵ Where specifications are drawn to the advantage of one manufacturer, the Board should publicly indicate their determination and justifying rationale. The appropriate use of competition, provides taxpayers with the greatest assurance that goods and services are procured in the most prudent and economical manner.

During the 2009 fiscal year, the Town purchased a truck (model TC5500) for \$91,750. This purchase was advertised, however, the bid specifications were restrictive. The specifications used brand names, such as Allison, Venture, Freedom, Goodyear, without an “or equal” clause. Although three companies requested the bid specifications, only one bid was submitted. This bid was accepted.

The Highway Superintendent stated that he did not purchase the truck off the State bid as it was too late to purchase this particular model, because it was last year’s model.

Although there is no statutory or common law rule requiring that more than one bid be received, good management practice would dictate that inquiries into such situations be made prior to approving awards. Where the number of bids received is limited, the Town may not be purchasing the required commodity at the lowest cost.

Recommendations

1. The Board should ensure votes to appropriate public moneys are conducted in open meetings and that public participation requirements are met.
2. The Board should consult with the Town attorney in regard to the purchase of the land. If the payment was made inappropriately, the Town should recover the amount paid to the individual. The Board should also consider referring this matter to law enforcement.
3. The Board should not expend Town funds without a clear public purpose.

⁵ General Municipal Law allows for standardization for reasons of efficiency or economy with the adoption of a resolution by a vote of at least three-fifths of all the members of the Board.

4. The Board should ensure that bid specifications allow for competition. If the Board wishes to standardize to a particular make or brand they should adopt a resolution allowing for the practice.
5. The Board should consider rejecting a sole bid and re-advertise in order to best serve the financial interests of the Town and its taxpayers.

Water/Sewer Operations

Internal controls are those activities in place to provide reasonable assurance that cash and other resources are safeguarded and accounted for and to reduce the likelihood that errors or irregularities could occur and remain undetected. It is important that a system of internal controls over the billing and collection of water and sewer charges ensure that related duties are segregated or that compensating controls are in place, policies and procedures are in place to provide guidance over these processes, and that the Board provide sufficient oversight of the Town officers and employees who receive cash on behalf of the Town.

We identified significant weaknesses in internal controls over water and sewer billing operations. There is a lack of segregation of duties over the water and sewer billing and collections as the Superintendent performs all the functions of billing and collection process, without oversight. Also, the Board has not established and adopted written policies and procedures governing the billing, collection, and enforcement of water and rents, establishing sewer charges, and billing adjustments. Therefore, the Superintendent does not have adequate guidelines for preparing or adjusting bills. The Board also does not provide oversight of billing adjustments and the re-levying of unpaid accounts. As a result, there is an increased risk that errors and irregularities may occur and will not be detected and corrected in a timely manner.

Segregation of Duties

An effective system of internal controls provides for the distribution of duties so that no one individual controls all phases of a transaction. Proper division of responsibility should provide that the work of one employee is independently checked in the course of another employee's regular duties. In instances where staff is limited, a detailed supervisory review of related activities could provide assurance that policies and procedures are properly established and followed, that billing adjustments are proper and documented, and that cash assets are accounted for, accurately reported and adequately protected. Although optimal separation of duties may not always be practicable, at a minimum, the duties of cash custody and recordkeeping should be separated.

There is a lack of segregation of duties over the water and sewer billing function, because the collection process is being performed by the Superintendent, with no compensating controls in place. The Town bills users quarterly in January, April, July, and October. The Superintendent is directly responsible for the billing and collection

process. His responsibilities include reading meters, entering meter readings into the computer system and manual customer ledgers, preparing, printing and mailing bills, collecting payments, preparing deposits, making deposits at the local bank, entering receipts into the computer system and manual customer ledgers, making account adjustments, and providing Livingston County with the unpaid customer accounts for the tax roll. Also, there is additional risk as the Superintendent has the ability to change the water and sewer rates within the computerized billing system.

There is also a lack of Board oversight of the billing and collection process. At the end of each month the Superintendent only provides the Supervisor with the bank deposit receipts and collection logs for reporting purposes.⁶ Due to these weaknesses, we reviewed the water and sewer operations.

- We reviewed 199 water/sewer customer accounts billed in October 2010 and December 2010 totaling \$66,110 and \$42,832, respectively, to ensure services were billed correctly and the unpaid accounts were re-levied to Livingston County appropriately. We found that the accounts were billed correctly. The unpaid accounts were re-levied by Livingston County but we did not find any evidence the Board reviewed or approved the list.
- We also compared meter readings from 19 customer accounts from the December 2010 billing to ensure accuracy and found no material discrepancies.
- We reviewed seven receipts from the October 2010 billing to ensure that they had been properly recorded and deposited. We found no material discrepancies.
- We reviewed the five overpayments posted by the Superintendent to customer's accounts from the October 2010 billing and compared those amounts to the January 2011 billing. These credits were properly reflected in the January 2011 billing to customer accounts.

Authorized Rates

Policies and procedures provide clear guidance to Town officials for ensuring that user charges are accounted for properly. These policies should be consistent with legal requirements, the frequency of user charge billings, billing rates, collection periods, the timing and amount of late charges, the enforcement of unpaid accounts, and any

⁶ This information is also faxed to an accounting firm to be entered in the monthly budget report.

other guidelines necessary for the effective financial management of the services provided.

The Board has not established and adopted written policies and procedures governing the billing, collection, and enforcement of water and sewer rents. The Board established a resolution and policy giving guidance for water rates and late charges; however, the Board has not established a policy establishing sewer charges.⁷

Although we did not find any inappropriate transactions, the risk is increased that moneys could be misappropriated without detection when cash receipts and disbursements duties are not segregated, and management does not provide the proper oversight as a mitigating control.

Recommendations

6. The Board and Town officials should segregate the duties over the billing and collection of water and sewer rents.
7. The Board should establish written policies and procedures to provide adequate guidance over the billing, collection, and enforcement of water and sewer rents.
8. The Board should review and approve the list of unpaid water and sewer accounts to ensure that all delinquent water and sewer user accounts are properly re-levied.
9. The Board should review and approve, or designate someone who is independent of the water and sewer rents operations to review any adjustments made to customer accounts.
10. The Board should establish a resolution or policy establishing sewer charges.

⁷ The Superintendent stated he wrote a draft policy for sewer rents that is being reviewed by the town attorney.

Fiscal Oversight

Board members are the Town's fiscal stewards who are responsible for directing and overseeing the Town's financial activities. Internal controls over financial activities include an annual audit of financial records by the Board. The Supervisor is responsible for the custody of moneys, keeping accounting records, and providing the Board and the public with periodic financial reports and access to financial records. The Town hired an outside accounting firm (Firm) to assist the Supervisor with maintaining accounting records, and preparing monthly and annual financial reports.

The Board did not fulfill its oversight responsibilities because they did not perform an annual audit of Town records and reports. The Town does not have a contractual agreement with the Firm performing services for the Town. Further, the Supervisor allows the Firm to keep certain Supervisor's records and reports. These records are, therefore, not readily available to the public or Board for review, as required by law. The Supervisor does not have adequate control of his financial records, nor does he appropriately monitor those performing some of his financial duties. The Board's and Supervisor's lack of oversight of the Town's financial activities increases the risk that errors and irregularities could occur and not be detected or corrected in a timely manner.

Annual Audit

Town Law provides that, except as otherwise provided by law, all Town officers and employees who receive or disburse moneys during the year must account for such transactions and present their books and records to the Board by January 20th of the following year. In accordance with Town Law, the Board must then audit these records or engage an independent public accountant to do so. The Board must record the results of this audit in the meeting minutes. This annual accounting provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Town's fiscal procedures.

As of May 24, 2011, there is no evidence in the minutes that the Board audited, or caused to be audited, the books and records of the Supervisor, Superintendent, Clerk, and the records and dockets of the Town Justice during our audit period. Town officials also verified the lack of Board audit of records.

The Board's failure to ensure that annual audits are performed diminishes the Board's oversight of Town operations and could allow any errors and/or irregularities which may have occurred to remain undetected and uncorrected.

Financial Records

As the Town's chief fiscal officer, the Supervisor should collect, receive and maintain custody of all Town moneys. The Supervisor is responsible for disbursing Town funds and keeping an accurate and complete account of all moneys received and disbursed in accordance with the accounting system prescribed by the State Comptroller. If the Town contracts with an outside firm to perform some of the Supervisor's financial duties, it should have a written contract in place that outlines the services to be performed and the compensation to be paid. Further, it is important that the Supervisor oversees the firm to ensure that it is performing the agreed upon duties effectively. In addition, Town Law requires that the Supervisor keep his records in a Town building so that they are available for public inspection.

The Supervisor does not have adequate control of his financial records, nor does he appropriately monitor those performing some of his financial duties. The Town does not have a contractual agreement with the Firm performing accounting duties or adequate monitoring procedures in place to review the Firm's work. The Town's financial records, including bank statements⁸ for the current and previous fiscal years, are maintained at the Firm, which is located in another town. Because the Firm is located 25 miles from the Town office, these records are not readily available for public inspection, as required by Town Law. Further, the Firm prints Town checks, and prepares bank reconciliations and all financial reporting with little or no oversight by the Supervisor.

Due to this weakness, we reviewed all 139 disbursement transactions for September and December 2010 totaling \$423,807, and found no material discrepancies. Although we found the accounting records to be accurate and complete, when the Supervisor does not maintain adequate control over his financial records and does not adequately oversee the Firm performing his financial duties, it increases the risk of errors or irregularities, misinterpretation of the respective rights, duties and responsibilities of the Town and the Firm and the rate of compensation to be paid.

Recommendations

11. The Board should ensure that appropriate and meaningful audits of records and reports of all Town officers and employees receiving or disbursing money on behalf of the Town are performed annually.
12. The Board should require a written contract with the accounting firm that outlines the services to be provided and the compensation to be paid.

⁸ The bank statements are copies; the originals are maintained at the Town Supervisor's home.

13. The Supervisor should oversee the work that the Firm is performing on his behalf.
14. The Supervisor should ensure that financial records are maintained at the Town hall and available for public inspection, as required by statute.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

SUPERVISOR
Deborah Babbitt Henry
669-2635

Town Clerk
Tax Collector
M. Claudia Gauer
669-2545

Town Justice
Donald Haywood
669-2635/669-2478

Assessor
Herbert Humphrey
669-2647

Public Works
Superintendent
Lynn Holmes
519-1823

TOWN OF SPRINGWATER



8022 SOUTH MAIN STREET
SPRINGWATER, NEW YORK 14560
585-669-2635 585-669-2002 Fax

COUNCILPERSONS
Deputy Supervisor
Lawrence Graub
Patricia Willsea
Phillip Viruso
Carolyn Tinney

Town Historian
Havilah Toland

Code Enforcement

Highway
Superintendent
Ronald Mastin
669-2618

Edward V. Grant, Jr.
Chief Examiner Div. of Local Government & School Accountability
State Of New York Office of the State Comptroller
110 State Street
Albany, New York 12236

RE: Draft Town of Springwater Internal Controls Over Selected Financial Operations
Report of Examination – Period Covered January 1, 2009 – June 23, 2011
2011M-195

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations.

PURCHASING

Audit Recommendation:

1. The Board should ensure votes to appropriate public moneys are conducted in open meetings and that public participation requirements are met.

Implementation Plan of Action(s):

As of January 1, 2012 the Town of Springwater now consists of a new Supervisor and two (2) new Town Council members. With the change of regime has also come several policy changes across the board including strict adherence to Open Meeting rules and regulations, additional working meetings so that every single member of the board is aware of every aspect of the finances of the town. Assigning council members to act as liaisons between our department heads and the board so as to keep all members and the public apprised of the inner workings of the town.

Discontinuance of private meetings and Supervisor purchasing property and or equipment without board or public approvals being recorded.

TOWN OF SPRINGWATER

Implementation Date:

IMMEDIATE

Person Responsible for Implementation:

**Deborah J Babbitt Henry – Town Supervisor, Lawrence Gnau – Town Councilperson,
Patricia Willsea – Town Councilperson, Phillip Viruso – Town Councilperson**

Audit Recommendation:

2. The Town Board should consult with the Town attorney in regard to the purchase of the land. If the payment was made inappropriately, the Town should recover the amount paid to the individual. The Board should also consider referring this matter to law enforcement.

Implementation Plan of Action(s):

The new (2012) Town Board for Springwater NY has consulted with the Town Attorney and will be forwarding the report and all additional necessary documentation to the Livingston County District Attorneys Office for investigation and resolution.

Implementation Date

Before March 1, 2012

Person Responsible for Implementation:

Deborah J Babbitt Henry – Town Supervisor

Audit Recommendation

3. The Board should not expend Town funds without a clear public purpose.

Implementation Plan of Action(s):

The new (2012) Town Board for Springwater NY will be rewriting and updating the Procurement Policies applicable for all town employees/personnel with the Town Attorney.

Implementation Date

Before March 1, 2012

Person Responsible for Implementation:

**Deborah J Babbitt Henry – Town Supervisor, Lawrence Gnau – Town Councilperson,
Patricia Willsea – Town Councilperson, Phillip Viruso – Town Councilperson**

Audit Recommendation

4. The Board should ensure that bid specifications allow for competition. If the Board wishes to standardize to a particular make or brand they should adopt a resolution allowing for the practice.

Implementation Plan of Action(s):

The new (2012) Town Board for Springwater NY will be rewriting and updating the Procurement Policies applicable for all town employees/personnel with the Town Attorney

TOWN OF SPRINGWATER

Implementation Date

Before March 1, 2012

Person Responsible for Implementation:

Deborah J Babbitt Henry – Town Supervisor, Lawrence Gnau – Town Councilperson,
Patricia Willsea – Town Councilperson, Phillip Viruso – Town Councilperson

Audit Recommendation

5. The Board should consider rejecting a sole bid and re-advertise in order to best serve the financial interests of the Town and its taxpayers.

Implementation Plan of Action(s):

The new (2012) Town Board for Springwater NY will be rewriting and updating the Procurement Policies applicable for all town employees/personnel with the Town Attorney. We will attempt to better advertise for bids so as to not have one single bidders for projects.

Implementation Date

Before March 1, 2012

Person Responsible for Implementation:

Deborah J Babbitt Henry – Town Supervisor, Lawrence Gnau – Town Councilperson,
Patricia Willsea – Town Councilperson, Phillip Viruso – Town Councilperson

WATER/SEWER OPERATIONS

Audit Recommendation

6. The Board and Town officials should segregate the duties over the billing and collection of water and sewer rents

Implementation Plan of Action(s):

The new (2012) Town Board for Springwater NY is currently investigating several options ie: turning money collection to town clerk department; investigating drop box with bank, etc.

Implementation Date

Before March 1, 2012

Person Responsible for Implementation:

Deborah J Babbitt Henry – Town Supervisor, Lawrence Gnau – Town Councilperson,
Patricia Willsea – Town Councilperson, Phillip Viruso – Town Councilperson

Audit Recommendation

7. The Board should establish written policies and procedures to provide adequate guidance over the billing, collection, and enforcement of water and sewer rents.

Implementation Plan of Action(s):

The new (2012) Town Board for Springwater NY is currently investigating writing new policies and procedures with the Town Attorney.

Implementation Date

Before March 1, 2012

TOWN OF SPRINGWATER

Person Responsible for Implementation:

Deborah J Babbitt Henry – Town Supervisor, Lawrence Gnau – Town Councilperson,
Patricia Willsea – Town Councilperson, Phillip Viruso – Town Councilperson

Audit Recommendation

8. The Board should review and approve the list of unpaid water and sewer accounts to ensure that all delinquent water and sewer user accounts are properly re-levied.

Implementation Plan of Action(s):

The Superintendent of Water/Sewer will provide the Town Board quarterly with a list of all unpaid accounts.

Implementation Date

Before March 1, 2012

Person Responsible for Implementation:

Lynn Holmes – Water/Sewer Superintendent

Audit Recommendation

9. The Board should review and approve, or designate someone who is independent of the water and sewer rents operations to review any adjustments made to customer accounts.

Implementation Plan of Action(s):

The new (2012) Town Board for Springwater NY will review and approve any adjustments to customer accounts on a quarterly basis.

Implementation Date

Before March 1, 2012

Person Responsible for Implementation:

Deborah J Babbitt Henry – Town Supervisor, Lawrence Gnau – Town Councilperson,
Patricia Willsea – Town Councilperson, Phillip Viruso – Town Councilperson

Audit Recommendation

10. The Board should establish a resolution or policy establishing sewer charges.

Implementation Plan of Action(s):

The new (2012) Town Board for Springwater NY will be rewriting and updating the Policies applicable for establishing sewer rates with the Town Attorney.

Implementation Date

Before March 1, 2012

Person Responsible for Implementation:

Deborah J Babbitt Henry – Town Supervisor, Lawrence Gnau – Town Councilperson,
Patricia Willsea – Town Councilperson, Phillip Viruso – Town Councilperson
Town Attorney – James Campbell, Water/Sewer Superintendent – Lynn Holmes

FINANCIAL RECORDS

Audit Recommendation

11. The Board should ensure that appropriate and meaningful audits of records and reports of all Town officers and employees receiving or disbursing money on behalf of the Town are performed annually.

Implementation Plan of Action(s):

The new (2012) Town Board for Springwater NY will review and audit all records from the Town Accounting firm and carefully audit all vouchers presented for payment.

Implementation Date

Immediate

Person Responsible for Implementation:

Deborah J Babbitt Henry – Town Supervisor, Lawrence Gnau – Town Councilperson,
Patricia Willsea – Town Councilperson, Phillip Viruso – Town Councilperson
Carolynn Tinney – Town Councilperson

Audit Recommendation

12. The Board should require a written contract with the accounting firm that outlines the services to be provided and the compensation to be paid.

Implementation Plan of Action(s):

The Town Supervisor spoke with the accounting firm BALDWIN BUSINESS SERVICES regarding the possibility of a contract. While this may be a possibility, the Town is satisfied with the current working status.

Implementation Date

undetermined

Person Responsible for Implementation:

Deborah J Babbitt Henry – Town Supervisor, Lawrence Gnau – Town Councilperson,
Patricia Willsea – Town Councilperson, Phillip Viruso – Town Councilperson

Audit Recommendation

13. The Supervisor should oversee the work that the Firm is performing on his behalf.

Implementation Plan of Action(s):

The new supervisor is in contact with the accounting firm on a weekly basis discussing all aspects of the towns financial condition.

Implementation Date

Immediate

Person Responsible for Implementation:

Deborah J Babbitt Henry – Town Supervisor

TOWN OF SPRINGWATER

Audit Recommendation

14. The Supervisor should ensure that financial records are maintained at the Town hall and available for public inspection, as required by statute.

Implementation Plan of Action(s):

The Town Supervisor has requested from the outgoing board and supervisor the return of ALL town documents and records, however to date has been unable to adequately confirm that all such documentation has in fact been returned to the town hall. As of 1/1/2012 ALL records shall be maintained in the Springwater Town Hall.

Implementation Date

Immediate


Person Responsible for Implementation:

Deborah J Babbitt Henry – Town Supervisor

Thank you for your assistance in bringing this to our attention. We are striving to make all necessary correction and to put in place solid policies and procedures to prevent these types of issues from reoccurring.

If you require further information please contact us at 585-669-2635.

Sincerely,


Deborah J Babbitt Henry
Supervisor
Town of Springwater

January 18, 2012

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk.

During the initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents, such as Town policies and procedures, Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected water/sewer operations, purchasing, and fiscal oversight.

To accomplish our audit objective and obtain relevant audit evidence, our procedures include the following:

- We interviewed Town officials and employees, reviewed the Board minutes, and Town Law to gain an understanding of the procedures and the corresponding controls related to each of our audit objectives.
- We reviewed all water/sewer customer accounts totaling \$66,110 for October 2010 billing to verify customers were being billed and unpaid re-levied to the County.
- We reviewed all water/sewer customer accounts totaling \$42,832 for December 2010 billing to verify customer accounts were correctly prepared and supported by accounting records based on the credits due to customers noted in the September 2010 quarterly billing.
- We examined a random sample of 19 accounts by selecting every eighth item from December 2010 billing to verify water/sewer rates agree with the rates established by the Board.
- We reviewed all transactions from September and December 2010 to verify purchases were proper and complied with procurement guidelines and audit of claims. We examined a judgmental sample of 56 items for unusual payments to vendors and Board members, amounts over \$1,000 based on procurement policy and biddable items.
- We reviewed the Board minutes to find evidence that the Board had examined the financial records and reports of all Town officers and employees who received or disbursed moneys on behalf of the Town during the 2009 and 2010 fiscal years.
- Due to taxpayer complaints, we reviewed the Town's records, Board minutes and interviewed Town officials regarding the purchase of equipment and property.

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.

APPENDIX C

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