

Town Clerk's
Copy

Forensic Audit

Re: Town of Grafton



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Forensic Accounting • Valuation • Business Advisory

March 18, 2022

The Board of the Town of Grafton
2379 NY-2
Grafton, NY 12082

Re: Forensic Audit

Dear Town Board:

The following represents our findings in connection with the above captioned matter. Our opinions were formed based upon our investigation, research, information obtained, and documents examined as of this date. Should you have any questions, please do not hesitate to contact our office.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Paul C. Zarecki'.

Paul C. Zarecki, CPA
Partner

Ferraro, Amodio & Zarecki, CPAs
Forensic Accountants & Financial Advisors

I. INTRODUCTION

A. DESCRIPTION OF THE ASSIGNMENT

Ferraro, Amodio & Zarecki, CPAs was engaged to perform a forensic audit of the calendar year 2020 activity for the Town of Grafton (“the Town”). This included a review of the Town’s revenues, expenses, policies, and procedures encompassing the Town Clerk’s Office, the Town Supervisor’s Office, and the Highway Department.

B. SOURCES OF INFORMATION

Numerous sources of information were utilized in the conduct of this analysis including, but not limited to, the following:

- The Town’s balance sheets from 2010 through 2020.
- The Town’s trial balances from 2011 through 2020.
- The Town’s reports to the comptroller’s office from 2011 through 2020.
- The Town’s bank statements for the calendar year 2020 for the Operating Account, Trust and Agency Account, and the Highway Account.
- The Town’s monthly deposit receipts and checks received for 2020.
- The Town’s 2020 monthly financial statements produced by the Town Supervisor.
- Various invoices and bills, as well as canceled checks for the calendar year 2020.
- The Town’s prior Internal Controls Over Claims Audit performed by the Office of the State Comptroller in 2013.
- The Town’s payroll reports, including timesheets, paystubs, and payroll journals for the calendar year 2020.

II. BACKGROUND

The Town of Grafton is located in Rensselaer County, New York and was established in 1807. At the time of our audit, the Town Supervisor is Ingrid Gundrum, the Town Clerk is Vicky Burdick, the Highway Superintendent is Jarod Bouchard, and the secretary to the Supervisor is Erika Douglas. The Town Board is made up of Jodie Deschaine, Frank



Lewandusky, Pierce Hoyt, and Steve Beaudry. Mr. Beaudry also maintains the Town's Recycling Center.

The Town rents space to the United States Postal Service and a local Senior Center, creating rental revenue for the Town. The Town funds several services for Town citizens including the local Fire District, Ambulance, and Library.

III. SUMMARY OF OUR PROCEDURES

In order to verify the Town's financial records, we used a variety of auditing methods based on generally accepted accounting principles. We relied on documents and information provided by the Town; however, we make no representation as to the accuracy or completeness of such information and assume no liability for such information. Throughout our review at the Town, we made note that the record keeping of the Town could be improved to allow for easier access and faster review times in the future. Please note that certain documents we requested to review could either not be located or were only provided after requests were made to third parties. This caused delays in our evaluation of the records. While multiple requests are typical in these types of audits, the lack of documentation in some respects is not. We recommend the Town review their documentation retention practices to ensure records of transactions and budget items are maintained and easily accessible.

A. 2020 TOWN REVENUES

The Town's revenues were verified using the bank statements and supporting documentation, including canceled checks and requisition forms from the Town Clerk and Justices. First, we scheduled all deposits made into the General Fund Operating Account ending in 0141 during the calendar year 2020. Deposits were then verified with deposit receipts, check stubs, and general ledger entries. We have inserted a breakdown of all 2020 deposits made by category in Table 1. Please note the 'transfers' represent transfers between bank accounts, and therefore, are not revenues. Transfers are not included in the percentage calculations as the percentages represent the individual percentage of total revenues only.



Table 1			
	Budget	Total	Pct.
Clerk	34,450.00	61,061.70	4.09%
Justices	7,000.00	16,844.50	1.13%
Rent (Senior Center)	30,000.00	19,371.75	1.30%
Rent (USPS)			0.66%
Property Taxes	874,291.00	876,730.71	58.68%
Mortgage Tax	55,000.00	46,080.25	3.08%
Sales Tax	236,000.00	304,574.31	20.38%
CHIPS	-	90,858.46	6.08%
Franchise	14,000.00	35,561.23	2.38%
Bottle Redemption/Scrap	-	6,932.26	0.46%
Fuel	-	483.41	0.03%
Miscellaneous	2,600.00	25,141.24	1.68%
Interest	800.00	669.76	0.04%
Transfers	-	23,675.58	
Total Bank Deposits		1,517,785.65	
Total Revenues (Less Transfers)		1,494,110.07	

As shown in Table 1, tax revenues account for approximately 80% of the Town's revenues and consist primarily of property taxes and sales tax collected. The Town has a Tax Assessor who collects the property tax revenues and then issues a check to the Town for the budgeted tax amount. The Town budget for 2020 lists \$874,291 to be raised by taxes. In 2020 the Town recorded one deposit of \$874,291 on February 5, 2020, followed by additional deposits for mortgage tax and late fee collections of \$20,498, bringing the total property tax related revenues to \$894,789. The Town also received \$90,858 in CHIPS (Consolidated Local Street and Highway Improvement Program) for the Highway Fund.

The Town receives rental income from the Post Office and Senior Center buildings. We requested the leases that were in place in 2020; however, none could be located at the Town building. We were later sent an email from the Commissioner of Aging with the Town's lease agreement with the Senior Center for the period of May 1,



2021 through April 30, 2024. This represents the agreed upon annual rental income amount. The Senior Center has a contract with the Town to pay rent for use of building space and the agreement updates each year in April. Based on conversations with the Supervisor and the monthly amounts paid, we projected the annual rent for 2020 to be \$23,276 for the calendar year. In 2020, total deposits from the Senior Center totaled \$19,372, resulting in a variance of \$3,904. This variance accounts for two months of rent not paid by the Senior Center. We were provided with documentation from the Commissioner of Aging listing all checks issued to the Town and the two missing months of rent were paid on December 31, 2020, and therefore, these checks were likely deposited in 2021. Please note that while we were able to project an expected rent receipt amount for 2020 based on conversations with the Supervisor, we were not provided with the Town's lease agreement with the Senior Center for the 2020 calendar year. In regard to the Post Office, the annual deposits from the USPS for 2020 totaled \$9,800, a product of 12 payments of \$816.67 each. We were not provided with a lease or contract agreement to verify the expected rent amount for 2020; however, we can confirm there were 12 payments received by the Town from the USPS in 2020.

Beyond the taxes and rental income amounts received, the Town receives deposits from the Town Clerk as well as the Town Justices. We reviewed the supporting documentation for each deposit from these sources made in 2020. The Town Clerk collects money from residents for a variety of Town services such as waste removal, licenses, and fees. The Town Clerk then writes a check from the Clerk bank account to the Town bank account for the month's collections. After reviewing the procedures of the Town Clerk and the supporting documentation for the 2020 deposits, we did not find any material variances. The Town Justices also write a monthly check to the Town for the fine and penalties paid. Thus, we reviewed the Justices' checks written to the Town as well as the breakdown of Town, State, and County funds collected, where available. The Justices collect the funds, deposit those funds in their accounts, write a check to the Town monthly, and then the Town sends the appropriate amounts to the State and County. In the sampled records, we did not find any material variances.



The Town also receives revenue from franchise payments from companies such as Charter and National Grid. These revenues account for less than 3% of the Town's total revenues. The franchise payments are accounted for and tracked by the Town Supervisor. We were told the franchise payments were reconciled with the budgeted amount or expected revenues. However, we noted that the budgeted franchise fees for 2020 was \$14,000 and the actual amount received per the deposits reviewed was \$35,561. On January 14, 2022, we were provided with an agreement with Time Warner Cable Northeast LLC, which the Supervisor requested on our behalf. The agreement states the Town will receive a franchise fee of five percent (5%) of the gross revenues Time Warner Cable receives. Time Warner Cable reportedly sends reconciliations with each check; however, in the documents we reviewed, none of these reconciliations were found. We comment on franchise income further below, as documentation for franchise fees was limited and it remains unclear if the Town was properly reimbursed.

Other revenue sources for the Town include scrap metal and bottle redemption, auctions, and some payment in lieu of taxes from non-profit organizations. These additional revenue sources have been consolidated in our 'miscellaneous' category of deposits in Table 1.

In our review of the Town's deposits and supporting documentation, it was noted some checks were not deposited in a timely manner. For example, one check was dated May 25, 2020 and was not deposited until November 10, 2020. Additionally, a check dated March 3, 2020 was not deposited until July 20, 2020. Excluding these two checks as outliers, the average time between check date and the deposit date was 11.6 days. In practice, checks should be deposited when received, and at a minimum within the week they were received. Given these standards, it appears the Town has made timely deposits, excluding the two exceptions. This allows the Town to maintain accurate records and avoid timing differences. A log of when checks are received would eliminate any confusion in the future.

To summarize, based on the documentation reviewed and provided, we are of the opinion the Town is accurately reporting the revenues received, and amounts are monitored with the budget. In the year 2020, the property tax figures agreed to the



budget, which is by and large the most significant source of revenues for the Town. However, we recommend the Town review their record keeping and documentation retention policies to ensure the policies encourage supporting documents are being maintained for revenues and expenses and are easily accessible. Additionally, we recommend the Town consider a policy requiring checks to be deposited into the bank accounts during the week in which they are received.

B. 2020 TOWN DISBURSEMENTS

In order to verify the Town's disbursements, we sampled a variety of invoices, checks, and the general ledger to verify accuracy and proper approval processes were conducted. We reviewed the Town's procurement policy, written in 1999. As required by law, this policy should be reviewed annually in an organizational meeting. On January 6, 2020 the current procurement policy was accepted.

We sampled roughly 50-60% of all paid invoices for each month in 2020. Of the sampled invoices, we noted one overpayment made to Southworth Milton-Cat in February 2020; however, it appears this overpayment was discovered and adjusted for in July 2020. Additionally, we sampled the Town's payroll reports over the year of 2020 in order to gain confidence in payroll procedures. The Town's elected officials are typically paid per Town Meeting at a stipulated amount. This results in one paycheck per month for a standard amount for all elected officials. We also verified the year end paystub to the W2 Statement issued for the sampled employees and found no material differences. We requested documentation to support the rate of pay for the sampled employees; however, we were told employees pay rates are dependent on classification and approved in the budget. The Town's Employee Policy Handbook, last updated in 2013, states the Town shall maintain an Official Personnel File for every employee. While the bi-weekly payroll records are kept, there is no signed documentation stating the employee's rate of pay at the inception of their employment, or upon any change in rate. In discussions with the Town's Supervisor, pay increases for elected and appointed officials are part of the annual budget process and are approved by the Board. Similarly, rates of pay for hourly employees are adjusted based on classification level and are part of the budget process. On January 6, 2020, the Board approved payment of elected officials, appointed officials, part-time and full-time employees to be paid in accordance with



the 2020 budget. It is our opinion that records regarding each employee's rate of pay at any given time should be maintained and updated, along with the annual budget adjustments. We will comment more on this matter in the recommendations section below.

The Town employees are compensated bi-weekly. All hourly employees provide a timesheet to their supervisor. We reviewed a sample of bi-weekly timesheets to verify the appropriate supervisor's signature was recorded. In our sample, we did not note any timesheets without appropriate signatures.

We were provided with the procurement policy in place with the Town which is dated, and has apparently not been updated, since 1999. This policy outlines procedures in place and states it will be reviewed annually. The policy references a Chief Fiscal Officer, which we believe would fall to the Supervisor; however, it appears the language is outdated.

Overall, the Town's disbursements that were sampled were properly accounted for and documented. There could be improvements with the documentation of employee files and updated or reviewed procurement files. Of the paid invoices reviewed, appropriate disbursement procedures were followed based on our samples and one error was corrected within the year.

C. BALANCE SHEET DISCREPANCIES

The Town's balance sheets for the General Fund, Trust and Agency Fund, and Highway Fund report variances, and thus, the balance sheets are not in balance. The Town as a whole is in balance; however, the individual funds are not in balance. When a fund is not in balance, the accounting software will not allow that period to be closed. It is our understanding the books have not been closed since 2014.

We identified several journal entries made in 2013 and 2014 that were adjustments directly to the fund balance accounts for the General Fund, Highway Fund, and Trust & Agency Fund. There was also a similar journal entry made in 2017 that appears to be a correction. Additionally, these entries included adjustments to



different funds within one entry, which creates discrepancies at the individual fund level. The descriptions (“memo”) of these entries vary, but all acknowledge that the entries were made to correct fund balances. However, entries made directly to any fund balance account is not proper accounting and thus, created differences between the individual funds. These entries did not change the cash balance in any fund, and we are of the opinion no cash was affected as a result of these entries. Two entries made in January of 2014 created the majority of the discrepancies. One entry debited the Highway Fund Balance Account 909 and credited the Trust and Agency Fund Balance Account 909. Another entry debited the General Fund Account 917 and Trust and Agency Fund Account 915, unassigned unappropriated fund balance accounts. This entry also debited the Highway Fund and Trust and Agency Fund Accounts 915, unassigned unappropriated fund balance. These two journal entries created a difference of \$372,459.72 in the Trust and Agency Fund, a \$102,089.16 difference in the General Fund, and a \$270,370.56 difference in the Highway Fund. Without the supporting documentation for these entries, it is unclear how these amounts were determined. Fund balance accounts are meant to represent the available resources after liabilities are met and should not have journal entries made to them. Additionally, the entry should contain offsetting debits and credits for each fund. Having one debit without a corresponding credit for a fund is going to create a variance within that individual fund.

We spoke with the Town’s former bookkeeper, Maureen Seel, on February 8, 2022. Ms. Seel explained at the time of her hiring, the Town’s individual fund balances were already out of balance. She states she was paid additional monies in order to identify the differences and make corrections. When Ms. Seel made those correcting entries, the General and Highway Funds did balance for a time. Ms. Seel then said the Board at the time chose to encumber CHIPS funds to be received, however, they were never received by the Town. This theory was previously brought to our attention by the former Highway Superintendent in that entries were possibly created to account for a receivable of FEMA funds. Regardless, if the funds were to be CHIPS or FEMA, both would create the same problems if they were never received. Based on these conversations, the entry to encumber funds that were not likely to be received was improper and would have created discrepancies. The books in that year were then closed, preventing those entries



from being reversed. The attempted correcting entries made in subsequent periods did not correct the issues.

It is our understanding that the Town's new bookkeeper, Wendy Ashley, has a plan to correct the Town's books going forward, beginning January 1, 2022. A new set of books will be opened January 1, 2022, using the corrected and actual account balances as of December 31, 2021. We agree with Ms. Ashley that making further adjustments to the books as they are is not prudent and would not benefit the Town. The current system will be backed up, and therefore, all records preserved. The most cost-effective and proper course of action would be to start fresh in 2022 with accurate account totals. If it is desired that we review the new books at the end of 2022 to assure proper balances, we can do so. Ms. Ashley has provided the balance sheets used to recreate the 2020 year-end balances, which agree to the annual Comptroller's Reports.

The Town has filed annual reports with the State Comptroller's Office which report the assets, liabilities, and equity amounts for each fund, as well as the revenue and expenses. We reviewed the Comptroller Reports for the years 2010 through 2020. Since adjustments were made to the Town's fund balance accounts after the submission of the reports, we would not anticipate the amounts to agree between the Comptroller Reports and the balance sheets reviewed. Based on our review of the balance sheets, journal entries, and Comptroller Reports, the source of differences between the Comptroller Reports and the Balance Sheets are likely related to the improper journal entries made in the Town's books.

In conclusion, we are of the opinion the erroneous entries were a result of human error. The Town's books reflected a difference in the balance sheets and even though correcting entries were attempted to eliminate the errors, these entries ultimately did not correct the issues. In our review of the records, we did not find absolute evidence of fraud, and we consulted with the new bookkeeper, who agrees with our opinion that the errors were not a result of fraud. We do believe these issues could have been corrected sooner with earlier intervention; however, we are of the opinion the discrepancies were not a result of fraud.



IV. RECOMMENDATIONS

Based on our review of policies and procedures, we have the following recommendations for the Town:

- In our questioning of opportunities for fraud, we inquired about the Town's cash collection policies and processes. We were told cash was typically only collected by the Town Clerk for regular licenses and other small items, as well as the recycling system. During the course of our site visits we witnessed the recycling system in place and observed one worker managing many incoming residents at once. The Town Clerk explained that at the end of the day the recycling collector reports the number of bags of garbage received and the corresponding cash amount. In this system there is no oversight to confirm the garbage collected and the cash amount is correct. We would propose the Town utilize a ticket system where residents can purchase tags ahead of time, and since they are sequentially numbered, the Town could easily confirm the number of bags received by recording the tag numbers. This would reduce the risk of fraud and errors occurring.
- In our review of deposits made in 2020 and the supporting documentation, we found two checks which were deposited well after the check date (as noted in detail above in Section III A). We would recommend a Town log book to record when checks were received, to serve as accountability for prompt deposits.
- Petty cash is maintained in order to service immediate and small needs of the Town. Having a petty cash fund is occasionally necessary; however, reconciliations should be performed each month at the board meeting to ensure proper oversight. It is our understanding the Town's petty cash was not accounted for on the books in previous years. In discussions with the Town's current bookkeeper, petty cash will now be on the books for the General Fund. The Town should select specific individuals who have access to the petty cash and have detailed oversight procedures and policies in place for individuals with access.
- We requested the employee files to review the hourly rates of workers, as well as to review their hire date, reviews, and other personnel related items. We were



told such employee files were not maintained. We strongly suggest a file is created for each employee of the Town and that it is regularly updated for changes in pay rate, as well as the employee's address and any other changing items. Having an employee file available would eliminate any question of pay and also contain any disciplinary actions in one record.

- In our review of all year-end documentation, the Town accurately provided employees with W-2 Statements; however, in our review, we noted that there were no Form 1099s issued. Form 1099s are sent to contractors, whether individuals or companies, that provide services to the Town worth more than \$600 in any calendar year. The guidelines for this Form can be found online and should be reviewed in relation to all payments made in 2021 to determine if Form 1099s should be issued.
- The Town receives rental income from the Post Office and the Senior Center. We would recommend the Board bring up these rent payments as an agenda item each month at the monthly Board meeting, so it can be followed up on promptly if a month goes unpaid. Additionally, the Town should retain and make easily accessible the agreements and contracts in files for easy reference.
- Similar to the rental income, franchise fees are recorded and traced by the Town Supervisor. These franchise fees vary and are paid by multiple vendors. We recommend the Supervisor create a system to track and maintain a ledger to verify all franchise fee income is being captured and deposited. The reconciliations reportedly provided with the payments should be reviewed by the Supervisor to ensure accuracy. All documents related to franchise payments should be maintained at the Town offices to allow easy reference and reconciliation. Additionally, these ledgers should be reviewed by the Board quarterly.

V. CONCLUSION

We reviewed the Town's revenues and expenses for the calendar year of 2020 and have noted our observations above. The Town's revenues agreed to or exceeded the budgeted amount, and the actual deposits in the Town's bank accounts agreed to the general ledgers. The Town's disbursements were documented accurately, and



proper approvals were found within the records sampled. The Town's past balance sheets reflect differences which were a result of erroneous journal entries made directly to fund balances. A path forward has been established by the new bookkeeper and the records as of January 1, 2022 should be accurate, without differences in balances on the balance sheet.

Additionally, there were several areas that we believe could be improved to reduce the risk of fraud in the Town and provide better oversight of taxpayer revenues. We have outlined our recommendations in section IV of this report. These recommendations are meant to assist the Town in creating strong policies and procedures, so policies are enforced in the future to protect the Town's assets. Overall, our audit did not reveal any concerns of past fraudulent activity related to the Town's revenues or disbursement of funds.



