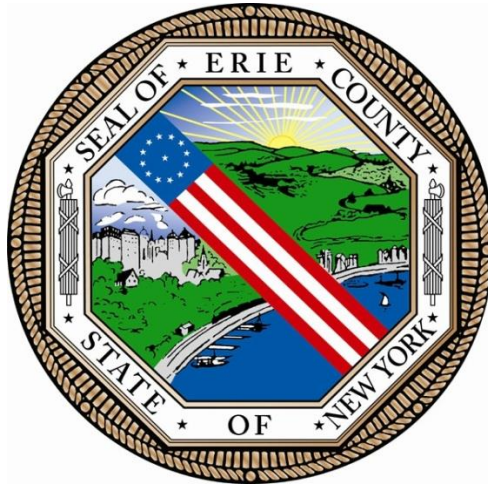


June 2018

**REVIEW OF FIXED ASSETS
TOWN OF BOSTON
January 1, 2017 through December 31, 2017**



**STEFAN I. MYCHAJLIW
ERIE COUNTY COMPTROLLER**

**HON. STEFAN I. MYCHAJLIW
ERIE COUNTY COMPTROLLER'S OFFICE
DIVISION OF AUDIT & CONTROL
95 FRANKLIN STREET
BUFFALO, NEW YORK 14202**



May 4, 2018

Jason A. Keding – Supervisor
Town of Boston
8500 Boston State Road
Boston, New York 14025-9648

Dear Supervisor Keding:

The Erie County Comptroller's Office has completed a review of fixed assets for the Town of Boston for the period January 1, 2017 to December 31, 2017.

We conducted our review in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. Our objectives were to:

- Evaluate and assess the fixed asset process.
- Determine compliance with established policies and procedures over fixed assets.
- Evaluate the propriety of the fixed assets purchased and recorded.
- Assess controls over the additions to and deletions from the inventory.
- Review proper and accurate documentation to support the purchases made and additions to inventory as well as the assets removed from inventory.
- Review of lease agreements related to fixed assets.

We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our review objectives.

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EXECUTIVE SUMMARY

During the course of our review, we found three significant issues which we are presenting to management for corrective action.

1. Fixed Asset listings by department are not current and do not provide a true representation of the actual fixed assets owned by the Town. The last update appears to have been made in 2003. On the listing provided to us we could not locate \$1,463,635 in fixed assets. Further we found \$2,699,276 in assets, at estimated market value, that were not on the listing despite being currently in use.
2. Annual Financial Reports were submitted to the Office of the State Comptroller for 2014, 2015 and 2016. These reports include general fixed asset totals for Land, Buildings, Improvements Other Than Buildings and Machinery and Equipment. However, documentation to support the asset totals for these years could not be located.
3. The Capital Asset and Procurement Policies are vague and lack necessary detail. The policies are outdated and have not been updated to represent changes to the current organizational environment. The Capital Asset Policy conflicts with the Procurement Policy on the value of assets to be tracked for inventory. Further, the Procurement Policy does not address requirements for asset purchases between \$5,000 and \$10,000 but requires purchases in the range of \$1,500 and \$5,000 to have written authorization, completed Purchase Request Form and Town Board notification.

REVIEW METHODOLOGY

The goals of our review were to determine whether adequate internal controls exist over the purchase of fixed assets, maintenance of a current fixed asset inventory, the sale of scrap materials/parts/equipment, or the auction of surplus items.

To achieve these goals we assessed the internal controls in place. Control questionnaires were utilized to document discussions with staff relative to the purchase transaction cycle, the additions of fixed assets to department inventory, the deletions from department inventory due to the sale of obsolete or surplus items and the recording of these transactions. We obtained and reviewed existing policies and procedures and assessed them for adequacy. Strengths and weaknesses of the control system were identified and indicated that we could not rely on the accuracy and completeness of the record keeping over fixed assets. There was a high level of risk that a material misstatement of the inventory valuation could occur and not be detected by management.

Our assessment was driven by several significant factors such as:

- Lack of management oversight.
- Turnover of accounting/bookkeeping staff.
- Incomplete or insufficient recordkeeping.

- Absence of supporting documentation.
- Insufficient operational procedures.

In order to assist management of the Town of Boston to overcome this situation, we performed a complete physical inventory of the Town's assets by department for the year ending December 31, 2017.

A schedule was prepared which documented the current value of these assets at December 31, 2017. Each inventory item was assessed for the current value based on the condition and appropriate book value.

A separate schedule was prepared showing the assets last inventoried by the Town as compared with the changes in total value as presented to the State Comptroller in the Annual Update Documents for 2014, 2015, and 2016.

Going forward, the onus will be on the Town to work in conjunction with their auditors to develop a plan to control and value their fixed asset inventory.

BACKGROUND

The Town of Boston (Town) was formed in 1817 and is located in Erie County with a population of almost 8,300 residents. The Town provides various services to its residents including general governmental support, street maintenance and improvements, snow removal, water service, and refuse collection.

The Town Board (Board) is an elected five-member legislative body that is responsible for the oversight of the Town's finances and operations. The Board consists of the Town Supervisor (Supervisor) and four Council members. Currently, there is one vacancy on the Council.

Erie County serves as a source of revenue for the Town of Boston's budget. Due to a 1977 sales tax sharing agreement entered into by Erie County, the county shared over \$1.1 million with the Town of Boston in 2017. This money is used to offset property taxes which would otherwise be paid by Town of Boston property tax payers. As such, Erie County has an interest in the fiscal health of the Town of Boston.

The Board is responsible for the overall financial management of the Town. This includes establishing internal controls that safeguard assets. Annually, the Board reviews and adopts a procurement policy that is designed to provide guidance and compliance by all Town officials and employees when making purchases.

The Board and Budget Officer are responsible for the effective management and financial planning in order to provide continuous and responsible services to residents. The Budget Officer retired in November 2016. A contractor was hired to replace the retiring Budget Officer.

However, the contractor was released in August 2017. The Board has since contracted with an outside CPA firm to perform fiscal operations in the interim of hiring a replacement.

In November 2017, Boston citizens elected new officials including the Supervisor, two council members, the Town Clerk, and Town Justice.

With the Office of the State Comptroller not performing an audit of the Town since 2011, the Board passed resolution #2018-09. This resolution requested assistance from the Erie County Comptroller's Office. It was agreed that the Comptroller's Office would perform a review of fixed assets for the period 1/1/2017 to 12/31/17. The Board ultimately is seeking improvements in the governance of internal controls for the safeguarding of Town assets. A review provides an independent assessment of the Town of Boston's fixed assets.

FINDINGS

I. Missing Assets

The Capital Asset Policy describes Fixed Asset Summaries (Summaries) as being the responsibility of department heads to update the assets as a result of various additions and dispositions. The Summaries for all departments were obtained from the Supervisor's Office prior to the start of our review. These Summaries were undated and lacked department head signatures attesting to the validity of the inventory items listed.

- The total value of assets listed on the Summaries was \$5,501,268. We located inventory assets on these summaries totaling \$4,037,633 leaving \$1,463,635 unaccounted for as either sold, scrapped, stolen or otherwise misappropriated. Of the \$1,463,635 in assets not located, \$1,142,117 were attributable to the Highway Department.
- Our inventory found \$2,699,226 in assets that were not listed on the departmental asset summaries.

The discrepancies with both the missing assets and the unrecorded assets were the result of non-compliance with existing policies and procedures coupled with a lack of management oversight.

Accordingly, **WE RECOMMEND** that Town management take the steps to ensure that all department heads are aware of and are compliant with the proper procedure for adding to and deleting from the departmental Summaries. In addition, management should periodically monitor departmental compliance.

II. Unsupported Annual Financial Reports

Article 3, Section 3 of the New York State General Municipal Law requires every municipal corporation to provide a report of its financial condition to the Office of the State Comptroller.

Section K of the Annual Financial Report (Report) requires a breakdown of fixed assets by asset group for Land, Buildings, Improvements Other Than Buildings and Machinery & Equipment. As noted in the Appendix, we obtained and reviewed Section K of the Report for 2014, 2015 and 2016. Each of the years showed total assets in excess of \$10,000,000. However, the Town was unable to provide supporting documentation to substantiate the amounts reported to the Office of the State Comptroller for any of the three years.

It should be noted that the office structure for the Town's bookkeeper/accountant has been in a state of flux. Accordingly, the preparation of the Report was the responsibility of individuals no longer working for the Town. Compounding the problem is that the Report was available without any of the underlying support documentation. Thus, we could not confirm the accuracy of the Section K data submitted to the State Comptroller.

WE RECOMMEND that Town management immediately implements a process to ensure that all documentation used to prepare the Report is retained physically and backed up electronically. This would be applicable whether the Report is completed by employees of the Town or by an outsourced vendor.

III. Policies and Procedures

A review of the Capital Asset and Procurement Policies was completed where we focused on the relevance and effectiveness of safeguarding assets. Our testing revealed inadequate controls as well as non-compliance surrounding the procurement, addition and deletion of the fixed assets inventory.

The Town has both a Capital Asset Policy and a Procurement Policy to provide guidance over purchases.

A. Capital Asset Policy (Policy)

This Policy describes how to update and maintain the Summaries by department including establishing a starting value, adding assets to inventory and disposing assets from inventory.

We found that the starting inventory did not contain all the required information noted on the Summaries. Further, the Purchase Request Forms (PRF) were not always utilized as required, which prevented assets from being added to inventory. Lastly, the asset disposal forms were also not utilized so that obsolete or disposed items could be removed from inventory.

To ensure a more complete and accurate inventory, **WE RECOMMEND** that management of the Town consider updating the Policy to include:

- Requiring a periodic update to the inventory.
- Updating the Summaries to include the signature of the department head and the date last inventoried.

B. Procurement Policy

The Procurement Policy states per Guideline 3, “All estimated purchases of (a) less than \$20,000 but greater than \$10,000 require a written request for a proposal (RFP) and written/fax quotes from 3 vendors; or (b) less than \$5,000 require an oral request for the goods and oral/fax quotes from 3 vendors if possible; or (c) less than \$1,500 are left to the discretion of the Purchaser.”

This procedure does not address purchases between \$5,000 and \$10,000. Additionally, it requires purchases less than \$5,000 to have an oral request and oral/fax quotes but fails to address how the oral quotes are documented for the Supervisor to review with the Board.

The Policy states per Guideline 7, “purchases in the range of \$1,500 and \$5,000 require written authorization, Purchase Request Form, signed by the Supervisor and the Supervisor will discuss with the Town Board prior to approval. Purchases over \$5,000 require approval at the Town Board meeting.”

WE RECOMMEND that the Procurement Policy be updated to address those purchases between \$5,000 and \$10,000.

WE FURTHER RECOMMEND the Purchase Request Form be updated to provide Supervisor approval attesting purchases between \$1,500 and \$5,000 were discussed with the Town Board prior to the Supervisor’s approval.

IV. Asset Forms

A. Purchase Request Form Record Book

Our review of the PRF Record Book disclosed the inconsistent recording of these PRFs, not only in 2017 but as far back as 2005. This is contrary to the purchasing directives which are part of the Policy. As such, it is difficult to ensure that all purchases of inventory assets are recorded properly.

WE RECOMMEND that Town management take the steps necessary to ensure that all policies and procedures relative to fixed asset procedures are followed to provide reasonable assurance that all such purchases are accurately recorded.

B. Disposal Form

The Policy states “When an asset is no longer useful, a “Disposal Form” (Form) must be completed by the department head. Our review noted at least two assets sold at auction in 2017. No Form was located for the sale of neither a 1998 Plow Truck for \$2,650 nor a 2003 Cargo Trailer for \$3,050. Additionally, the Disposal Form does not have a designated line to note the date the Form is completed and a line for the bookkeeper to sign, verifying the date payment was received and a copy of the deposit ticket attached. The Form is not prenumbered nor is it required to be recorded in a Record Book similar to the Purchase Request Form.

In order to ensure that all disposed assets are properly recorded, **WE RECOMMEND** that the Town takes the necessary steps to reiterate to department heads the purpose of this Form and takes the additional steps to monitor compliance.

AUDITOR COMMENT

Regarding the use of a PRF, the wording in the Policy and on the actual PRF is conflicting which makes the actual intent of Town management subject to interpretation. The Policy states “When any department finds it necessary to make a purchase, for whatever reason, if the item or items are \$100 or more, a PRF must be obtained from the Supervisor’s office...” This conflicts with wording on the PRF which states that the form tracks assets with a value of \$300 or more.

In order to eliminate confusion with respect to the use of \$100 versus \$300, **WE RECOMMEND** that Town management clarify the dollar value for recording purchases as an asset by ensuring the Policy and the PRF reference the same amount.

We wish to thank the Supervisor, members of his staff and the other employees of the Town of Boston who provided us assistance during the course of our review.

RESULTS OF THE EXIT CONFERENCE

An exit conference was held on June 6, 2018 where the contents of the report were discussed with the Town Supervisor. He was in general agreement with our findings and recommendations.

We request that the Supervisor provide a written response to our report by June 21, 2018 addressing the findings and recommendations by detailing the Town's course of corrective action.

ERIE COUNTY COMPTROLLER'S OFFICE

cc: Town Board, Town of Boston

APPENDIX

Comparison Summary	Fixed Asset Summary	2014 AUD	2015 AUD	2016 AUD	Auditor Valuation of Physical Count
Land	\$ 276,550	\$ 299,853	\$ 299,853	\$ 299,853	\$ 2,254,777 ¹
Buildings	\$ 2,016,626	\$ 4,474,461	\$ 4,574,209	\$ 4,574,209	\$ 2,030,467
Improvements Other than Buildings	\$ 1,196,873	\$ 1,833,752	\$ 1,833,752	\$ 1,833,752	\$ 1,196,873
Machinery and Equipment	\$ 2,011,219	\$ 3,766,725	\$ 3,806,303	\$ 3,960,953	\$ 569,291 ²
Total	\$ 5,501,268	\$ 10,374,791	\$ 10,514,117	\$ 10,668,767	\$ 6,051,408

Footnotes:

- 1) Identified additional properties not on Fixed Asset Summary.
- 2) Difference between Fixed Asset Summary and the Auditor's Physical Count was the result of deleting the value of the assets not located and deducting depreciation for the remaining assets which included both old and new equipment.