

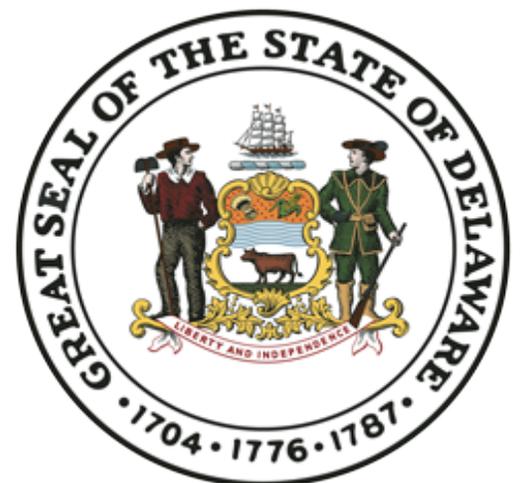
State of Delaware Office of Auditor of Accounts

Town of Frankford

Inspection

Issuance Date: August 1, 2016

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts





State of Delaware
Office of Auditor of Accounts
R. Thomas Wagner, Jr., CFE, CGFM, CICA
At a Glance

Working Hard to Protect YOUR Tax Dollars

Why We Did This Review

Amidst numerous complaints from Town residents, the Delaware Department of Justice performed a review and investigation of the Town of Frankford in early 2015. The Attorney General's Office concluded that there was insufficient evidence to sustain a criminal prosecution.

Following the resignation of the Town Clerk in September 2015, the Town Council contacted the Office of Auditor of Accounts (AOA) with various issues, including conflicts of interest between a Town employee and former Town Council members and questionable financial and accounting practices. Consequently, AOA agreed to perform this inspection.

This inspection was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*.

For further information on this release, please contact:

R. Thomas Wagner, Jr.
State Auditor
r.thomas.wagner@state.de.us
(302) 739-5055

What We Found

AOA issued a report in 2008 making the same recommendations that are called for in this report. In general, the Town of Frankford continues to lack processes to provide assurances about the accuracy and integrity of its budgetary and accounting records. During our investigation, Town officials indicated they are working on developing and implementing controls.

It would be very beneficial for the Town to ensure someone with appropriate fiscal and internal control experience work on designing, implementing, and monitoring the new operating practices.

While our work did not identify blatant examples of fraud or abuse, it is possible that inappropriate activity occurred and was not detected, particularly when dealing with cash transactions.

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Abbreviations

AOA	Auditor of Accounts
Council	Town of Frankford Council
State	State of Delaware
Town	Town of Frankford

Background

The Town of Frankford (the Town) is located on Route 113 in the southern portion of Sussex County, Delaware,¹ and has approximately 850 residents.²

Town Processes

According to the Town's financial statements, the Town raises revenue through the receipt of various taxes and fees, income from traffic violation fines, and rental fees for use of the Town's park. The Town bills residents for water usage, trash, and recycling, due to the Town within 30 days of the billing, and property taxes, building permits,³ and gross receipts taxes.⁴ The Town Clerk coordinates the billing and receipts of Town taxes (e.g. property taxes and gross receipts taxes), utilities, and park rentals, while traffic violation fees are paid to the State of Delaware (the State) and reimbursed to the Town after payments are received. The Town Clerk processes billings and receipts through QuickBooks.⁵

Town Employment

The Town has four employment positions: a Town Clerk, a maintenance worker, a police chief, and a police officer.

The previous Town Clerk was employed from 2002 to September 2, 2015. Her husband served on the Town Council from 1996 through August 2015, and he served as the Town Council President from October 2010 to July 2014.

Town Council

The Town Council (the Council) consists of five uncompensated members, who must be Frankford residents. Council members are elected by qualified voters, as defined by the Town Charter, and serve two-year terms.⁶ The Town Charter requires the Council to hold regular monthly meetings and maintain minutes of those meetings.⁷ Council officers include a President, Vice-President, Secretary-Treasurer, and Collector of Taxes.⁸

The Council has the "full power and authority to use the money in the Treasury" for various purposes that are in the best interest of the Town.⁹ The Town Charter also describes additional responsibilities of the Council including, but not limited to:

- Fixing the salaries and compensation of employees, officers, and agents of the Town, and the time and manner of payment. "No officer, employee, or agent of the Town shall in any form have, take or receive from the Town any compensation in any form in addition to the salary or compensation fixed by the Council." (Section 14 (B))

¹ https://en.wikipedia.org/wiki/Frankford,_Delaware

² <http://www.census.gov/2010census/popmap/ipmtext.php?fl=10>

³ Town Ordinance 32 amends Section 9 of Ordinance 2 providing fees for building permits. In addition, 22 Del. C. c 3 grants municipalities zoning regulation power.

⁴ Town Ordinance 32 imposes a gross receipts tax of 2% on Town residents as of May 6, 2013.

⁵ QuickBooks is accounting software produced by Intuit, Inc.

⁶ Town Charter, Sections 3 through 5

⁷ Town Charter, Sections 9 and 13

⁸ Town Charter, Section 14 (A)

⁹ Town Charter, Section 19

- Maintaining a complete record of all officers appointed and employees and agents hired by the Town, including the names, dates of appointment or employment, amount of compensation, and the date of termination of service. (Section 14 (C))
- Commissioning an auditor to "...audit the accounts of the Town and all of its officers whose duty involves the collection, custody and payment of the moneys of [the Town]." (Section 14 (H))
- Levying annual taxes. (Section 15 (A))
- Appropriating money to pay the Town's expenses, including the temporary transfer of money from one fund to another of the Town in the case of an emergency. (Section 18 (38))
- "...[I]nquir[ing] into and investigate the conduct of any office, officer or employee of the Town..." including "...the power to subpoena witnesses, administer oaths and compel production of books, papers or other evidence." (Section 39)
- Establishing a pension plan and/or a health and welfare plan for the employees of the Town. (Section 18 (42))
- Preparing an annual budget. (Section 22 (B))

Section 14 of the Town Charter also describes the duties of each officer:

- President – responsible for presiding over all Council meetings and oversees municipal affairs; also receives complaints and violations of Law and Ordinances and presents them in the immediate following Council meeting.
- Secretary – records all proceedings of the Council; "All records, books, papers and documents in the custody of the Secretary shall be open for the inspection of Council and the public."
- Treasurer – "...should be sworn or affirmed to faithfully and honestly perform the duties [which are not specifically listed in the Charter] of his office;" should be bonded for \$15,000.
- Collector of Taxes – responsible for collecting all Town taxes, water and sewer rents, charges for electric current and all other kinds of Town revenue, including depositing the funds into the appropriate Town account; should be bonded for \$15,000.
- Town Solicitor – responsible for providing legal advice to the Council; should be a member of the Delaware State Bar Association.¹⁰
- Police Officers – responsible for preserving peace and order.
- Town Clerk – responsible for attending Council meetings and keeping adequate minutes, maintaining the Town's records (including bills approved by the Council with amount and payee; record of officers, agents, and employees of the Town; tax assessments and records; and utility rentals); may be compensated; may be bonded in an amount determined by the Council, at the Council's discretion; should not be a member of the Council.

¹⁰ The Town charter requires membership to the "Bar of Sussex County;" however, AOA was unable to identify a Bar of Sussex County and found that the Delaware State Bar Association is the only Bar association in the State.

Procedures and Results

The Town Council contacted the Office of Auditor of Accounts (AOA) with concerns regarding the long-standing Town Clerk's abrupt resignation on September 2, 2015, and citizen complaints of questionable financial and accounting practices. As a result, AOA agreed to perform an inspection over the Town's financial records. We reviewed financial transactions and processes from July 1, 2013 through September 30, 2015, as described in further detail throughout this report.

Town Council Responsibilities

Lack of Internal Controls

The Town lacked sufficient internal controls to safeguard assets and ensure the accuracy of financial transactions. For instance, the Town was unable to provide any written policies or procedures surrounding financial processes, or provide examples of Council oversight (e.g. approval of bank statement reconciliations) during the period reviewed by AOA. In addition, the Town did not have an adequate segregation of duties, leaving one employee, the Town Clerk, to process and reconcile a vast majority of the Town's transactions. Fortunately, the Town Clerk did not have signature power with any of the Town's checking accounts.

The Town has consistently received findings in the Fiscal Years Ended June 30, 2013 and 2014 (Fiscal Year 2013 and Fiscal Year 2014, respectively), financial statement audits for a lack of segregation of duties; heavy reliance on the auditors to make accounting adjustments, which are the responsibility of management; and an outdated employee policy manual dating back to 1998.

AOA released a Town of Frankford Special Investigation report in 2008 which recommended that the Town adopt a formal policies and procedures manual, and work to better segregate Town duties. Unfortunately, the Town did not take timely action on AOA's recommendation. As of May 4, 2016, current Town Council has not yet developed formal policies and procedures over financial processes.

Noncompliance with the Town Charter

Town Council members were unable to provide support that either the former or current Town Collector of Taxes¹¹ or the former or current Town Treasurer were bonded in accordance with the Town Charter.

Town Finances

Town Budget

A budget is an official statement from a government about how much it plans to spend during a particular period of time and how it will pay for the expenses.¹² A budget is typically based on historical figures, but cannot account for unexpected expenses or income during a given year and, therefore, may not always reflect actual receipts or spending by a government.

¹¹ While defined separately in the Town's Charter, the Town Clerk fulfills this role.

¹² <http://www.merriam-webster.com/dictionary/budget>

According to Section 22 of the Town Charter, the Town Clerk and the Town Treasurer may prepare a rough draft of the Town budget annually. The Town Council must then prepare the Town budget, from the draft, no later than July 31 of each year. This section of the charter also states that "...Council shall, so far as possible[,] adhere to the Budget so adopted in the making of appropriations." The Charter is silent regarding provisions for ongoing budget amendments.

Town residents repeatedly raised concerns about the accuracy of the Town’s budget. In particular, several of the residents claimed that the Council was hiding a budget for a Town pension in a police training line item. AOA compared the Town’s Fiscal Year 2014 General Fund portion of the Town budget to the actual Fiscal Year 2014 General Fund revenues and expenditures, and we found a minimal overall variance of less than 5% of the total budgeted General Fund revenues and expenditures. Although the Town could have provided better transparency into the intended use of the funds by creating a specific item in the budget for anticipated pension costs, a plan had not been approved or put into place by Council in Fiscal Year 2014 and no pension funds were actually spent.

Bank Statement Activity

During the period of our inspection, the Town maintained six separate bank accounts: the General Fund, Water Fund, Municipal Street Aid Fund, Sinking Fund, Transfer Tax, and Water Capital Reserve.

Tables 1, 2, and 3 below summarize the activity in each of the six bank accounts during Fiscal Year 2014, Fiscal Year ended June 30, 2015 (Fiscal Year 2015), and Fiscal Year ended June 30, 2016 (Fiscal Year 2016, only includes information obtained from July 1, 2015 through September 30, 2015), respectively.

Table 1: Total Activity per Bank Statements during Fiscal Year 2014					
Account	Number of Deposits	Total Amount of Funds Deposited	Number of Checks/ Payments	Total Amount of Checks/Fees Paid	Interest Income
General Fund	121	\$ 395,313.04	404	\$ (395,906.69)	\$ -
Water Fund	146	409,984.08	275	(387,624.71)	-
Sinking Fund	-	-	-	-	10.07
Water Capital Reserve Fund	1	750.00	-	-	109.84
Transfer Tax Account	10	32,977.25	2	(34,328.16)	172.12
Municipal Street Aid	1	10.00	14	(18,037.94)	15.51
Grand Total	279	\$ 839,034.37	695	\$ (835,897.50)	\$ 307.54

Table 2: Total Activity per Bank Statements during Fiscal Year 2015

Account	Number of Deposits	Total Amount of Funds Deposited	Number of Checks/ Payments	Total Amount of Checks/Fees Paid	Interest Income
General Fund	178	\$ 418,316.78	497	\$ (284,389.80)	\$ -
Water Fund	206	429,124.30	216	(448,649.99)	-
Sinking Fund	1	4,305.00	-	-	14.01
Water Capital Reserve Fund	1	2,000.00	-	-	111.26
Transfer Tax Account	7	22,573.50	-	-	172.75
Municipal Street Aid	1	33,889.70	10	(13,005.23)	35.02
Grand Total	394	\$ 910,209.28	723	\$ (746,045.02)	\$ 333.04

Table 3: Total Activity per Bank Statements during July 1 through September 30, 2015

Account	Number of Deposits	Total Amount of Funds Deposited	Number of Checks/ Payments	Total Amount of Checks/Fees Paid	Interest Income
General Fund	38	\$ 135,500.71	100	\$ (44,582.61)	\$ -
Water Fund	28	98,224.59	42	(50,004.38)	-
Sinking Fund	-	-	-	-	4.17
Water Capital Reserve Fund	1	4,000.00	-	-	30.20
Transfer Tax Account	1	1,621.62	-	-	51.13
Municipal Street Aid	1	16,783.27	3	(4,061.01)	11.64
Grand Total	69	\$ 256,130.19	145	\$ (98,648.00)	\$ 97.14

AOA traced the information from the bank statements back to the Town's records in QuickBooks to ensure all bank account activity was reflected as a debit or credit in the records. Our work did not compensate for:

- the comprehensive lack of internal controls,
- the inability to confirm the accuracy of the Town's accounting, or
- the completeness of the Town's books and records particularly in the area of cash transactions.

Town Revenues

Failure to Issue Receipts

As mentioned above, the Town lacked any formal policies and procedures surrounding financial transactions. This included the process for collecting payments from Town residents for utility and property tax bills. The Town failed to issue receipts and did not maintain adequate supporting documentation for deposits during the period of our review. Therefore, AOA was unable to trace cash deposits per the Town's records to the bank statements. Because cash can be easily misappropriated, and the Town lacked sufficient internal controls and records, we could not verify if all cash collected was appropriately deposited.

Accounts Receivable Aging

The Town had several outstanding accounts receivable with billings as far back as 2004, which had not been collected. As stated in the Town's Fiscal Year 2014 audited financial statements, the Town does not have an allowance for doubtful accounts and believes that all debts are fully collectible. AOA reviewed the accounts receivable for Fiscal Year 2014 and Fiscal Year 2015 and determined that delinquent accounts with large balances were addressed by the former Town Solicitor by sending letters that demanded payment for outstanding water/trash and tax billings, and, in some cases, filing liens against the individuals' properties.

Former Town Clerk and Council President

Since the former Town Clerk and her husband¹³ lived in the Town, she was responsible for processing her own water and tax billings. We inspected 100% of the water billings from July 1, 2013 through September 30, 2015. The rates charged agreed to the Town's ordinances, and the water usage amounts traced back to the water meter readings provided by the Town's maintenance worker, without exception. We also inspected the former Town Clerk's tax billings for the same period, and the tax assessment per Sussex County agreed to the calculation per the tax bills without exception. All amounts billed to the former Town Clerk were paid per QuickBooks. We could not trace these deposits to the bank statements due to the lack of detailed supporting documentation, as discussed above.

Resident Payment Controversy

During our inspection, a Town resident brought forward documentation claiming that property taxes he paid personally in cash were also paid by his mortgage company, unbeknownst to him, for several fiscal years. The resident provided copies of his property tax invoices with handwritten notes, presumably by the former Town Clerk, stating that the bill was paid in full with cash. (See Figure 1 for an example of an invoice with the handwritten note provided.) As discussed previously, since the Town did not maintain adequate supporting documentation for deposits, including the failure to issue cash receipts, AOA was unable to identify where the cash was deposited.

For three fiscal years in question, Town records indicated that the resident's property taxes were paid by the mortgage company. The resident claimed the double payments happened for two other fiscal years; however, he was unable to provide documentation showing the handwritten notes or any form of receipt. The amount billed was \$538.75 for each fiscal year.

¹³ As stated in the Background section of this report, he was a former Council member and one-time Council President.

Figure 1: Example Invoice from Resident

TOWN OF FRANKFORD PO BOX 550 #5 MAIN STREET FRANKFORD, DE 19945 302-732-9424		Invoice	
		DATE	INVOICE #
		7/13/2010	3142
BILL TO			
[Redacted] Frankford, DE. 19945			
TAX MAP ID	PROPERTY DESCRIPTION	LAND	IMPROVEMENT
[Redacted]	[Redacted]	1000	20,550
DESCRIPTION	ASSESSED VALUE	RATE	AMOUNT
Real Estate Tax Town of Frankford 7/01/10 - 6/30/11	21,550	0.025	538.75
<i>8/9/10 Pd. in full cash JAT</i>			
DUE BY SEPT. 30, 2010; 1% PENALTY PER MONTH ON UNPAID BALANCE.			Total 538.75

Town Park Rental

The Town has a Town Park, complete with a playground and picnic tables. The Town Park is available to reserve, and customers pay a rental fee to use one or both of the bathrooms on site. A security deposit is required to obtain a key for the bathroom(s), which is refundable if the key is returned and the bathrooms do not require an excessive amount of cleanup. For the entire period of our review, the rental and security deposit fees for one bathroom were \$25.00 each.

AOA inspected park rental forms for the period July 1, 2013 through September 30, 2015. Through our review, we found that the Town did not consistently identify the method of payment (e.g. cash, check). In addition, we found four instances where the park rental agreement stated that the fees were waived, but we were unable to identify approval of this waiver in the Council meeting minutes. Also, due to a lack of support maintained by the Town, AOA was again unable to trace park rental deposits per the Town’s records to the bank statements.

We also identified several instances where the Town inconsistently processed park reservations by charging and returning various security deposit amounts. For example, when renting two bathrooms, the Town charged customers the following amounts on various occasions, with no documented rationale for the difference.

Table 5: Different Park Rental Fees for Renting Two Bathrooms

	Bathroom Rental Fee	Security Deposit Collected and Returned
Example #1	\$50.00	\$50.00
Example #2	\$50.00	\$25.00

The Town should consider developing a policy that specifies the amounts to be charged for renting of one or two bathrooms, including the amount of the security deposit for one or two bathrooms. In addition, the policy should indicate reasons when the rental fee might be waived, and who has the authority to make those decisions.

Town Expenditures

Transactions

AOA inspected invoices for a variety of vendors, individuals, and employees paid by the Town. The total number and dollar value of the transactions inspected can be found at Table 6.

Table 6: Summary of Expenditures Inspected by Fiscal Year

Expenditures Paid to:	July 1, 2013 through June 30, 2014		July 1, 2014 through June 30, 2015		July 1, 2015 through September 30, 2015	
	Number	Dollar Value	Number	Dollar Value	Number	Dollar Value
Vendors	246	\$ 468,887.97	238	\$ 309,653.86	17	\$ 40,212.69
Petty Cash	6	803.55	15	1,334.94	-	-
Employees	11	1,265.77	8	1,630.95	4	156.01
Individuals	13	2,652.25	36	6,706.44	7	682.63
Grand Totals	276	\$ 473,609.54	297	\$ 319,326.19	28	\$ 41,051.33

Other than the two exceptions described below, the Town provided support for all of the transactions reviewed. AOA did not find any concrete evidence that these transactions were for personal purposes.

Pep-Up Fuel Cards

The Town paid a total of \$20,253.88 for purchases charged to four separate Pep-Up fuel cards. Table 7 summarizes the number and amount of these payments for the period of our review.

Table 7: Pep-Up Fuel Card Payments

Year	Number of Payments	Dollar Value of Payments
Fiscal Year 2014	19	\$ 11,757.97
Fiscal Year 2015	18	8,104.23
Fiscal Year 2016	2	391.68
Grand Totals	39	\$ 20,253.88

Town officials were unable to confirm which Town employees were issued fuel cards. In addition, they were unable to provide any sort of policy or guidelines which would have governed the use of the cards.

Unexplained Transfer

The Town was unable to provide support or an explanation for the reason behind one cash transfer for \$45.81; however, the funds were transferred to another Town bank account.

Payroll Transactions

The Town confirmed that all individuals who received a paycheck during the period of our review were, in fact, employed by the Town.

AOA inspected all weekly payroll checks, with corresponding timesheets, paid to the former Town Clerk and former Police Chief from July 1, 2013 through September 30, 2015, with the following criteria in mind:

- The Town’s “Employee Policy/Benefits,” which detailed, among other items, paid holidays for full- and part-time employees. This policy was dated February 1998,¹⁴ and included seven paid holidays (New Year’s Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Eve, and Christmas Day).
- Town Council’s memorandum issued in September 2008, stating that the Police Chief shall be compensated for any time worked in excess of the normal 40.0 hour work week in hour-for-hour compensatory time.
- Town Council’s decision, as documented in the August 5, 2013, meeting minutes, to limit overtime worked by the former Town Clerk to 10.0 hours per week.

All payroll checks inspected were supported with a corresponding timesheet.¹⁵ However, despite a line for “Supervisor Signature” on the timesheets, most timesheets lacked the supervisor’s signature. Also, during Fiscal Year 2014, the former Council President/member signed his wife’s payroll checks.

The lack of supervisor review could account for various payroll exceptions, including instances where the hours worked per the timesheet did not agree to what was paid and exceptions where payroll was not processed in accordance with the Town’s policy or Council’s decisions.

These discrepancies included instances where:

- Employees were paid for holidays that were not included in the Town’s policy.¹⁶
- The former Town Clerk was paid overtime in excess of the 10.0 hour cap.
- The Police Chief was paid for overtime at a rate of one and a half times his pay for hours worked in excess of 40.0 hours per week, rather than earning hour-for-hour compensatory time.

¹⁴ The Town confirmed on April 6, 2016, that this policy was in effect during the period of our inspection.

¹⁵ Excluding situations where a timesheet was not considered necessary, such as Christmas bonuses approved by the Town Council.

¹⁶ Town Council stated on May 4, 2016, that they created an Employee Handbook, effective March 1, 2016. The policy was updated to reflect the Town’s actual practice, and these holidays are now included as paid days off.

The discrepancies identified above resulted in overpaying the former Town Clerk and Police Chief a total of 457.25 hours, totaling \$13,321.38, as detailed in Table 8.

Table 8: Summary of Payroll Discrepancies by Fiscal Year						
	Employees Overpaid when Timesheet Hours did not Agree to Hours Paid		Employees Overpaid for Unallowable Overtime		Employees Overpaid for Holidays not on Town Policy	
	Hours	Dollar Value	Hours	Dollar Value	Hours	Dollar Value
Fiscal Year 2014	22.50	\$ 413.50	142.75	\$ 5,438.25	96.00	\$ 2,136.00
Fiscal Year 2015	12.50	242.00	73.00	2,627.63	104.00	2,212.00
Fiscal Year 2016 ¹⁷	10.50	288.00	4.00	108.00	-	-
Grand Totals	37.50	\$ 799.50	219.75	\$ 8,173.88	200.00	\$ 4,348.00

In addition, we found several instances where the former Town Clerk would carry forward overtime hours worked in excess of 10.0 hours in one week, despite the 10.0 hour cap established by the Town Council. While these instances were not discussed per the Council meeting minutes, Council members signed her payroll checks, thereby approving this practice.

Further, we found that Town employees were paid in advance on December 19, 2013, for the pay period ending December 25, 2013. In addition, we found that Town employees were paid in advance on December 22, 2014, for the pay periods ending December 24, 2014, and December 31, 2014.

¹⁷ Only includes activity from July 1, 2015 through September 30, 2015.

Recommendations

AOA recommends that the Town develop comprehensive, written policies and procedures for all of the Town's operations (e.g. property tax billings and collections, approving and paying for expenditures). These procedures should be detailed to address controls such as authorization, segregation of duties, management review, and reconciliation. Due to the Town's limited employees, the Town is encouraged to involve Council to ensure a proper segregation of duties.

Appendix A

Town Council Comments



5 Main St., P.O. Box 550
Frankford, Delaware 19945
(302) 732-9424

The Honorable R. Thomas Wagner Jr.

Auditor of Accounts

401 Federal St. Suite 1

Dover, De. 19901

RE: Response to Schedule of Findings Town of Frankford

Dear Mr. Wagner,

The Town Council of Frankford has received the inspection report of the Town of Frankford for the period July 1, 2013 through September 30th, 2015. While the town is most appreciative of and do not disagree with the majority of your findings, and have already incorporated many of these, there is a level of disappointment with a couple of issues that were specifically requested to be examined and appears to be left unresolved by this report.

Background

As previously conveyed, the towns administration prior to September, 2015 consisted of a Town Clerk and a council President, who were husband and wife. While there were other council members, these members were basically shut out of the decision making process. This period lasted for well over a decade and as stated was an obvious conflict of interest. This period ended abruptly in August of 2015 with the resignation of both under unusual circumstances and hostilities.

Request to Engage Auditor of Accounts

As a result of these resignations and the circumstances at the time, many citizens came forward to express their concerns to the "new" council. These concerns covered a period of many years and alleged serious financial irregularities. Therefore, the current council felt it was their fiduciary duty to engage your office for a complete and holistic review of the town's finances for the 13 year period in question.

Our hesitation with the report is twofold;

- 1) The council feels that a more comprehensive inspection dating to 2008 when the last report was completed, would have been more appropriate in light of the unique situation the town was in at that time. Specifically the inherent conflict of interest of the spousal situation, the amount of time this existed for and the refusal of the principals to allow the other council members their rightful due diligence. In addition, the removal of Town property, up to and including the deletion of emails the clerk performed prior to her resignation.

The fact that an investigation was done by Matt Towers from the Department of Justice/Auditors Office in late 2013 early 2014, whereby he interviewed the clerk, council member and residents/tax payers. The only documentation reviewed by Mr. Towers at that

Frankford Town Council

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time were the payroll records of the clerk. With the clerk being on notice of the investigation and complaints filed at that time, the council again feels that a more comprehensive inspection dating back to 2008 would be more appropriate.

- 2) Financial Irregularities of Cash Transactions. The council brought to your attention several occasions where homeowners double paid their property taxes and no record of refunds could be located. This occurred when the homeowner paid via cash their tax bill, and subsequently another payment for the same account was received from the mortgage company's escrow account. Without a complete review of all escrow payments matched to QuickBooks and other records, there is no way to determine the extent of this activity. *Your report states that the town had inadequate controls for cash receipts. We acknowledge this and in fact this was the primary reason for engaging your office. What was needed to resolve resident concerns was, and is, a thorough review of this and all cash management within that period of time.*

In regards to specific controls the report noted, the new administration has instituted a number of changes over the last 9 months. In addition, Charter and Ordinance revisions are to be completed as soon as possible, and we will certainly embrace the other issues your report raises. The current changes include;

- A) EMPLOYEE MANUAL – The council has instituted a complete employee manual that all employees are required to sign. This manual details employee benefits, procedures, rights and responsibilities and encompasses a progressive disciplinary policy. The manual is similar to the manual used by Sussex County, De.
- B) SEGREGATION – Each council member is responsible for a department of the Town's functions. General oversight of employee's, the budget for their department and monitoring of expenditures are part of these responsibilities. Each council member reports their respective department's activities to the council President. Further financial oversight is performed by Treasurer.
- C) CHARTER & ORDINANCES – The council has established a committee for a review of the current charter and ordinances, and to recommend changes to be enacted. Among these changes to be enacted is a strengthening of the language as to nepotism, bonding procedures, improving the budget process and insuring our ordinance regulations are in compliance with state law.
- D) PAYROLL PROCEDURES – Prior to 2016 payroll procedures were handled by the town clerk and were approved by the council President, the clerk's husband. A new payroll procedure was implemented in January, 2016 where an outside vendor is now used for all payroll services, including accrual of vacation and sick time. The vendor's reports are reviewed each week by two members of the council and signed off on.
- E) RECEIPTS – The current town clerk issues receipts for all transactions and they are reviewed and reconciled with the bank statements. As noted in your report, the previous clerk issued almost no receipts. Going forward, the clerk will encourage all resident payments to be paid by check or money order, reducing cash transaction as much as possible. In addition, an online bill pay option will be offered.
- F) The present council and town clerk have engaged in an aggressive campaign to reduce past due accounts. Additional mailings and phone calls are being done. The council will also scrutinize seriously past due accounts for to determine and classify as to whether they are collectible.

Frankford Town Council

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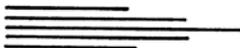
- G) TOWN PARK RENTAL – New procedures have been implemented. No cash refunds and better tracking through Quickbooks.
- H) VACATION & SICK PAY- A new vacation and sick time policy was part of the Employee Handbook in place since 3-1-2016. This is monitored by both the outside vendor and two members of council.
- I) EMPLOYEE HOURS- Revised as of 3-1-2016. Overtime pay is strictly monitored by each department liaison, and is approved only when necessary. Time clocks have been installed in both Town Hall and the Police Department and required to be used daily.

Finally, the council will discuss all of the report’s recommendations and implement where feasible. We appreciate all the hard work your office has done for the Town and its residents over the last few months and we look forward to working with you in the future to strengthen our fiscal procedures.

Sincerely,

Frankford Town Council: Joanne Bacon President
 Greg Welch Vice President
 Marty Presley Secretary/Treasurer
 Pam Davis Councilman
 Edward Ash Councilman

Friday, July 15, 2016

 *Frankford Town Council* 

5 Main St., P.O. Box 550
Frankford, Delaware 19945
(302) 732-9424

The Honorable R, Thomas Wagner Jr.
Auditor of Accounts
401 Federal Street Suite 1
Dover, Delaware 19901

July 17, 2016

RE: additions to Response to schedule of findings for Town of Frankford

Mr. Wagner,

Please accept the following comments as an addition to the Frankford Town council response to Schedule of Findings.

This audit did not assess if our water rate was legally established as required by town ordinance. The 2008 audit did make this assessment and noted that the rate that was being charged was legally established by the process required by town ordinance.

This audit did not take issue or address Operational Transfers that were only recorded as expenses in the 2014-15 budget and documents claiming to be actual income and expense accounts that were used to create the 2014-15 budget. I recall these Operational Transfers accounted for \$58,000 of expenses in the previous year's budget and about \$62,000 in the actuals that were used to create the 2014-15 budget. No Operational Transfers were recorded as income in either the budget or actual used to create the budget. There was never any account of where this money went.

This audit did not account for the water department sinking fund. We have documentation that the citizens paid a fee that is required to be placed in an account and used as defined by town ordinance. There has never been a legitimate account of where this money went.

This audit concluded that the town overpaid some employees contrary to the policy that was in place. The conclusion was that because council members signed the checks they were approving these overpayments. Our council members have stated that the employee that was issuing the payroll misrepresented the policy and our town's accountant's approval of these overpayments.

Thank you for your time in considering our response.

Sincerely,

Greg Welch
Frankford Council Member

Appendix B

AOA's Response to the Town Council's Comments

AOA would like to offer clarification to the Town's response found at Appendix A. The above inspection report only covered transactions through September 30, 2015, and therefore spoke to any policies or procedures in place, or lack thereof, prior to this date. As such, we provide no assessment of your current processes.

To address the Council's two specific concerns, AOA did not find it prudent to launch a 13-year investigation with no solid evidence of fraud. Therefore, absent any solid evidence of fraudulent or inappropriate transactions during the scope of our engagement, AOA decided not to probe further. We also performed procedures that were not specifically identified in the report, but offered a level of comfort that proceeding further was not necessary.

While we understand that the former Town Clerk and former Council Member (and one-time Council President) were married, creating a conflict of interest, we found no evidence that other council members were "shut out of the decision making process" since the meeting minutes demonstrated that they attended the Council meetings and voted on the various topics. Regardless, Council members should not approve or sign checks for transactions they do not approve or understand, or without proper supporting documentation.

Concerning the deletion of emails, the current Town Clerk confirmed with your information technology consulting firm that these cannot be recovered since the Town did not back up its emails on an exchange server. Further, with a complete lack of controls over cash receipts, it is nearly impossible for us, or the Town, to ensure that cash collected was appropriately deposited. Matching escrow payments to QuickBooks would not provide evidence that any cash was also provided, collected, or deposited.

AOA would also like to offer clarification to the additional concerns raised by Mr. Greg Welch, Council Member (also found in Appendix A).

- Mr. Welch's concern regarding the legality of the Town's water rate was discussed during the June 28, 2010, Town Council meeting. The Town Solicitor provided an opinion that stated, "From time to time the water rates have been amended either by a separate ordinance or by the budget ordinance in order to meet the Department's requirements. ***Either method is legal.***" (Emphasis added.)
- Operational transfers are accounting entries that repay one fund for expenses paid out of another fund. For example, the Town Clerk's paycheck may have been written from the General Fund while some duties, such as water billings, should be accounted for as being paid from the Town's Water Fund. These are for accounting purposes and there was no physical transfer of money.
- As previously mentioned, there were procedures performed by AOA that were not specifically addressed in the report – this included procedures performed over the Sinking Fund. AOA obtained a level of comfort in discussions with the Town's independent auditor on procedures performed to verify that the Sinking Fund revenues were being

used for appropriate expenditures. In addition, it is our understanding that the Town's independent auditor met with Town Council members to discuss the nature of the Sinking Fund activities after the former Town Clerk resigned. While maintaining the sinking funds in a separate account¹⁸ would provide more transparency, we found no evidence that the money was used inappropriately.

Overall, AOA appreciates the cooperation of the Town Council and Town employees during our inspection. In light of the fact that the Town Council did not implement policies and procedures as our 2008 investigation recommended, it is imperative that the Town ensure all policies and procedures are comprehensive to provide adequate segregation of duties and proper safeguarding of Town assets.

¹⁸ Although the Town maintains a sinking fund bank account, the funds collected for this purpose are deposited into the Town's water fund account.