



Town of Hamilton

Financial Condition and Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

January 1, 2008 — July 31, 2009

2010M-151



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2010

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 Hamilton, entitled Financial Condition and 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 Hamilton (Town) is located in Madison County, is approximately 41 square miles and has a population of 5,733. The Town Board (Board) is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations and maintaining a sound financial condition. The Town Supervisor (Supervisor) is a member of the Board and serves as the chief executive officer. The Supervisor is responsible for the receipt, disbursement and custody of Town moneys, maintaining accounting records, and providing financial reports. The Supervisor appointed a bookkeeper and an assistant bookkeeper to assist him with his responsibilities. Subsequent to our audit, a new supervisor was elected and took office on January 1, 2010. The new Supervisor appointed a new bookkeeper. The Town's 2009 budgeted appropriations were approximately \$1.16 million funded primarily with real property taxes, user charges, and State aid.

Scope and Objective

The objective of our audit was to determine if Town officials adequately planned for, provided oversight of, and controlled the Town's financial operations for the period January 1, 2008 to July 31, 2009. In some instances, we reported on transactions and activities outside of our audit period because we considered the information to be necessary and relevant to this audit. Our audit addressed the following related questions:

- Does the Board properly monitor the Town's finances and its overall financial condition?
- Has the Town established adequate internal controls over the Supervisor's records and reports and are those controls operating effectively?
- Has the Town established adequate internal controls over cash receipts and disbursements and are those controls operating effectively?

Audit Results

We found that the Town accumulated \$1.2 million that should have been used to benefit the taxpayers. In addition, the Town's financial records and reports are not prepared and/or filed, cash receipt and disbursement duties are not segregated, and the Town's bank accounts are not reconciled. As a result, it is impossible for the Board to oversee the Town's finances, and there is an increased risk that moneys could be received, but not deposited, or that unauthorized payments could be made.

The Board was not able to monitor the Town's financial condition, including fund balance, because the former Supervisor did not provide the Board with monthly or annual financial reports. As a result, the town raised about \$656,000 in taxes for the 2009 fiscal year despite having already accumulated cash balances totaling \$1,203,423, representing 103 percent of the budget.

Internal controls over the Supervisor's records and reports need to be improved. The former Supervisor assigned accounting duties to the bookkeeper and the assistant bookkeeper, but did not provide sufficient oversight. As a result, necessary accounting records such as general ledgers and cash control accounts were not maintained. In addition, the former Supervisor did not provide monthly financial reports to the Board, and did not file annual financial reports with the State Comptroller or the Town Clerk since 2003. We also found that the Board does not audit the Supervisor's records and reports. Consequently, it is impossible for the Board or public to oversee the Town's finances. Furthermore, Town officials are unable to determine if one fund's cash has been incorrectly used to finance another fund's operations, resulting in taxpayer inequities, and there is an increased risk that moneys could be misappropriated without detection.

Internal controls over cash receipts and disbursements also need to be improved. The Board and former Supervisor have not segregated the duties of the bookkeeper and the assistant bookkeeper, and the bookkeeper has not reconciled the Town's bank accounts since 2005. Despite these control weaknesses, the Supervisor did not establish compensating controls, such as periodically reviewing the accounting records, bank statements and cancelled checks, or preparing the bank reconciliations himself. As a result, there is an increased risk that moneys could be received, but not deposited, or that unauthorized payments or transfers could be made.

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 they planned to initiate corrective action.

Introduction

Background

The Town of Hamilton (Town) is located in Madison County, is approximately 41 square miles and has a population of 5,733. The Town Board (Board) is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations and maintaining a sound financial condition. The Town Supervisor (Supervisor) is a member of the Board and serves as the chief executive officer. The Supervisor is responsible for the receipt, disbursement and custody of Town moneys, maintaining accounting records and providing financial reports. The Town Supervisor appointed a bookkeeper and an assistant bookkeeper to assist him with his responsibilities. Although the Board is primarily responsible for the effectiveness and proper functioning of internal controls, the Supervisor and department heads share this responsibility. Subsequent to our audit, a new supervisor was elected and took office on January 1, 2010. The new Supervisor appointed a new bookkeeper.

The Town's 2009 budgeted appropriations were approximately \$1.16 million funded primarily with real property taxes, user charges, and State aid. The Town provides services for its residents including a Town Clerk/Tax Collector, a Justice Court, an Assessor, a Code Enforcement Officer, a Dog Control Officer, and the Highway Department.

Objective

The objective of our audit was to determine if Town officials adequately planned for, provided oversight of, and controlled the Town's financial operations. Our audit addressed the following related questions:

- Does the Board properly monitor the Town's finances and its overall financial condition?
- Has the Town established adequate internal controls over the Supervisor's records and reports and are those controls operating effectively?
- Has the Town established adequate internal controls over cash receipts and disbursements and are those controls operating effectively?

Scope and Methodology

We examined the Town's financial condition, Supervisor's records and reports, and cash receipts and disbursements for the period January 1, 2008 to July 31, 2009. In some instances, we reported on transactions and activities outside of our audit period because we considered the information to be necessary and relevant to this audit.

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 they planned 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 Board to make this plan available for public review in the Clerk's office.

Financial Condition

The Board is responsible for making sound financial decisions that are in the best interest of the Town and taxpayers. The Supervisor is responsible for maintaining the Town’s accounting records and for providing the other members of the Board monthly and annual financial reports that include timely and accurate financial information. Board members need this information to make informed decisions when preparing the annual budget, monitoring the budget, and for monitoring the Town’s financial health throughout the year. Towns should carry over a reasonable amount of fund balance to ensure orderly operations and the continued provision of services. Each town needs to assess what is reasonable for their particular situation considering various factors including the timing and volatility of revenues and expenditures. Any fund balance in excess of identified needs should be used to benefit taxpayers.

The former Supervisor did not maintain necessary accounting records or provide the Board with monthly or annual financial reports. Due to the lack of accounting records, Town officials were unable to identify the amount of fund balance in each of the Town’s funds.¹ Consequently, the Board raised about \$656,000 in taxes for the 2009 fiscal year despite having already accumulated cash balances totaling \$1,203,423 or 103 percent of the 2009 budget.

To assess the Town’s financial condition, in the absence of adequate accounting records, we examined the Town’s bank statements, investment statements and certificates of deposit to determine how much money the Town had on deposit. The amount of cash on deposit at the end of 2007 and 2008 was enough to fund the entire following year’s budget, as follows:

	Fiscal Year Ended December 31, 2007	Fiscal Year Ended December 31, 2008
Total Cash on Deposit	\$1,255,780	\$1,203,423
Next Year’s Total Budgeted Appropriations ^a	\$1,141,444	\$1,163,364
Cash as % of the Following Year's Budget	110%	103%
^a The Town has one fire district and two fire protection districts that do not retain a cash balance. These districts were not included in this analysis.		

¹ Town-wide general fund, town-outside-village general fund, town-wide highway fund, town-outside-village highway fund and two lighting districts

Despite the large cash balances at the end of 2008, the Board raised about \$656,000 in real property taxes in 2009 – a 4 percent increase from the prior year. This further increased the Town’s already excessive cash balances. As of the end of our audit period (July 31, 2009), the total cash on deposit was \$1,594,484.

The former Supervisor told us that he was unaware of the Town’s cash balance and that there was no reason for such a significant balance. After we brought the excessive cash surplus to the attention of the Town officials, they adopted a budget for 2010 with no tax increase.

Recommendations

1. Town officials should use excess fund balance or surplus cash identified in this report in a manner that benefits Town taxpayers. Such uses could include, but are not limited to:
 - Increasing necessary reserves
 - Financing one-time expenses
 - Reducing Town property taxes.
2. The Board should ensure that it receives the necessary financial documentation to monitor the Town’s financial condition to ensure that excessive fund balance and cash surpluses do not recur.

Supervisor's Records and Reports

The Supervisor is responsible for maintaining the Town's accounting records. Although the Supervisor may assign those duties to another individual, he is still responsible for providing oversight to ensure the necessary records are maintained. In addition, the Supervisor is responsible for providing monthly reports to the Board, and for filing annual financial reports with the State Comptroller and Town Clerk to allow the Board and public to oversee the Town's finances. The Board must audit the Supervisor's records and reports at least once each year to maintain accountability for Town assets, and to protect those assets from loss, waste or abuse.

The former Supervisor assigned accounting duties to a bookkeeper and an assistant bookkeeper, but did not provide sufficient oversight. As a result, necessary accounting records such as general ledgers and cash control accounts were not maintained. In addition, the former Supervisor did not provide monthly financial reports to the Board, and has not filed annual financial reports with the State Comptroller or the Town Clerk since 2003. We also found that the Board does not audit the Supervisor's records and reports.

Accounting Records

The Supervisor, as the chief fiscal officer, is responsible for maintaining general ledgers, cash receipt and disbursement records, revenue and expenditure ledgers, and cash control accounts by fund. The Supervisor can assign these duties to a bookkeeper but must provide sufficient oversight to ensure that the assistant maintains suitable records.

The former Supervisor assigned accounting duties to the bookkeeper and an assistant bookkeeper, but did not provide sufficient oversight to ensure they maintained suitable records. We requested all accounting records for our audit period. However, the former Supervisor could not provide general ledgers, detail cash receipt and disbursement records, or revenue and expenditure ledgers. The former Supervisor's bookkeeper told us that she was unable to reconcile records for the 2004 fiscal year, and after that, stopped maintaining general ledgers (which would include cash control accounts by fund) and performing bank reconciliations.

Without complete accounting records, the Supervisor cannot properly track the Town's financial activity and prepare timely and accurate financial reports. This makes it impossible for the Board to assess the financial condition of the various Town funds and increases the risk that moneys could be misappropriated without detection. In addition, separate accounting records for each operating fund are important

because each Town fund represents a separate fiscal entity having its own tax/or revenue base.² The lack of separate accounting records for various funds whose cash is commingled in the same bank accounts increases the risk that an inequity among taxpayers may exist because one fund's cash could incorrectly be used to finance another fund's operations. Due to the lack of accounting records, Town officials were unable to determine if one fund's cash was incorrectly used to finance another fund's operations.

Monthly Reports

Town Law requires the Supervisor to submit a monthly report to the Board of all moneys received and disbursed during the month. It is important that these reports include detailed monthly and year-to-date budget to actual comparisons, fund balances and reconciled cash balances for each fund. Complete and accurate monthly reports provide essential financial information for the Board can use to monitor the Town's financial condition.

The former Supervisor did not provide monthly financial reports to the Board. Consequently, the Board did not have monthly statements of moneys received and disbursed, budget comparisons, fund balances or cash balances to review. The Board only received one budget status report midway through the year. This makes it impossible for the Board to oversee Town finances and increases the risk that moneys could be misappropriated without detection.

Annual Financial Reports

General Municipal Law and Town Law require the Supervisor to file an annual financial report with the State Comptroller and Town Clerk within 90 days after the close of the fiscal year. The Town may request a 30-day extension. The annual financial report is a representation of the Town's financial position and results of operation. The usefulness of the annual financial report depends on the timeliness of preparation.

The Supervisor has not filed annual financial reports to the State Comptroller or the Town Clerk since the 2003 fiscal year.³ During this time, not only have the reports not been filed, but they have not been completed. The failure to prepare and file annual financial reports within required time limits is indicative of the financial recordkeeping problems in the Town. As a result, the Board and the public have been denied an important tool to monitor the Town's financial affairs.

Annual Accounting

Town Law requires that, by January 20th of each year, the Board audit, or cause to be audited, the records and reports of the Supervisor. The annual accounting must include all supporting books, records, receipts,

² The Town should maintain a separate set of records for its town-wide general fund, town-outside-village general fund, town-wide highway fund, town-outside-village highway fund, and each of its two lighting and two fire protection districts.

³ After our fieldwork, the Supervisor who took office in January 2010 hired a person to complete the annual financial reports.

warrants, vouchers, and bank statements with cancelled checks or check images. In addition, the Supervisor must file a statement with the Town Board showing all receipts and disbursements. The statements must be in detail and entered in the minutes of the meeting by the Town Clerk. Such an annual accounting to, and examination by, the Board provides assurance that the 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.

The Town's December 29, 2008 minutes indicated that the former Supervisor submitted the Town's books and records for review and stated that the Board reviewed them. However, both the former Supervisor and the Deputy Supervisor told us that the Board was not provided any records from the former Supervisor, bookkeeper or assistant bookkeeper in the last few years. A Board member told us that the Board was presented with limited information pertaining to the budget status of the Town; however this information was not sufficient for the Board to perform an adequate annual audit.

The failure to perform an annual audit hinders the Board's ability to maintain accountability for Town assets, protect those assets from loss, waste or abuse, achieve fiscal objectives, and ensure that Town officers and employees follow established policies.

Recommendations

3. The Supervisor should maintain general ledgers, cash receipt and disbursement records, revenue and expenditure ledgers and cash control accounts for each fund. If the Supervisor assigns these duties to a bookkeeper, he should provide sufficient oversight to ensure that the assistant maintains suitable records.
4. Town officials should review the financial activities of the various Town funds and determine if and to what extent taxpayer inequities have occurred. If taxpayer inequities are identified, Town officials should seek legal counsel to determine what remedies are available.
5. The Supervisor should provide monthly financial reports to the Board that include statements of moneys received and disbursed, budget to actual comparisons, fund balances and cash balances for each fund. The Board should use these monthly reports as a means to monitor the Town's financial operations.
6. The Supervisor should prepare and file annual financial reports with the Office of the State Comptroller and the Town Clerk within 90 days after the close of the fiscal year.
7. On an annual basis, the Board should audit, or cause to be audited, the records and reports of the Supervisor.

Cash Receipts and Disbursements

The Board and Supervisor are responsible for segregating cash receipt and disbursement duties to ensure that all moneys received are recorded, deposited and accounted for, and that all disbursements are recorded, authorized, and for proper expenses. When circumstances do not permit for an adequate segregation of duties, compensating controls must be in place to ensure that complete and accurate records are maintained. In addition, the Supervisor should review bank reconciliations,⁴ or prepare bank reconciliations himself, and ensure that they are presented to the Board for review. Any discrepancies must be investigated and corrected immediately.

The Board and former Supervisor have not segregated the duties of the bookkeeper and the assistant bookkeeper. Consequently, the bookkeeper is responsible for collecting and depositing cash receipts, and preparing payrolls and checks for disbursement. The assistant bookkeeper assists with those duties with the exception of preparing checks for disbursement. The bookkeeper is also responsible for maintaining the accounting records and for performing monthly bank reconciliations. However, we found that the necessary records were not maintained, and that she has not performed bank reconciliations since 2005.⁵ Despite these control weaknesses, the former Supervisor did not establish compensating controls. For example, although the former Supervisor or Deputy Supervisor signed all checks, the Supervisor did not periodically review the accounting records or reconcile the bank accounts himself. In addition, the bookkeeper told us that even though the bank statements and cancelled checks were mailed directly to the former Supervisor, most of the time he turned them over to her unopened. The former Supervisor should have at least reviewed the bank statements and cancelled checks looking for unauthorized payments and reviewing the frequency and amounts of deposits for reasonableness.

Due to these control weaknesses, we conducted tests to ensure that cash receipts were deposited and that cash disbursements were for proper expenses. Although our audit tests did not reveal any significant discrepancies, this does not diminish the need for the Supervisor and Board to provide more oversight to reduce the risk that moneys could be received, but not deposited, or that unauthorized payments or transfers could be made.

⁴ Bank reconciliations should be performed each month comparing the adjusted bank balances to the balances recorded in the general ledger cash control accounts.

⁵ See related finding entitled "Supervisor's Records and Reports".

Recommendations

8. The Board and Supervisor should segregate the duties of the bookkeeper and assistant bookkeeper or establish compensating controls such as periodic reviews of the accounting records, bank statements or cancelled checks.
9. The Supervisor should review bank reconciliations prepared by the bookkeeper, or prepare bank reconciliations himself, and ensure they are presented to the Board for review. Any discrepancies should be investigated and corrected immediately.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF HAMILTON
16 Broad Street
Hamilton, New York 13346
Phone: (315) 824-3380

ROBERT H. KUIPER
Supervisor

CATHERINE S. HOTALING
Town Clerk

October 14, 2010

Rebecca A. Wilcox, CPA
State of New York
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Ms. Wilcox,

The purpose of this letter is to present you with the combination of our written response to the audit findings as discussed on October 5, 2010, and our corrective action plan (CAP).

AUDIT RESPONSE:

The Town of Hamilton board has reviewed and discussed the results of the audit conducted by your office for the period of January 1, 2008 to July 31, 2009 and agrees that the report is very detailed, accurate and thorough. Neither additions nor deletions are necessary and the findings will serve as a basis for the improvement of the management of the fiscal activities under our discretion. The Town of Hamilton board hereby agrees with and accepts the draft report as submitted.

CORRECTIVE ACTION PLAN (CAP):

Unit Name: Town of Hamilton

Audit Report Title: Financial Condition and Internal Controls
Over Selected Financial Operations

Audit Report Number: 2010M-151

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.

Audit Recommendation #1

Town Officials should use excess fund balance or surplus cash identified in this report in a manner that benefits Town taxpayers. Such uses could include, but are not limited to:

- * Increasing necessary reserves*
- * Financing one-time expenses*
- * Reducing Town property taxes*

Implementation Plan of Action:

For the fiscal year ended December 31, 2008, cash reserves exceeded the following year's budget by 103% and were approximately \$1,200,000. Beginning with the fiscal year 2011, and thereafter for a ten-year period, \$100,000 per year is planned to be included in the Unexpended Balance portion of the annual budget, thus reducing the amount raised by tax each year for the next ten-year period. This decision is subject to an annual vote and approval by the Town Board.

This amount has been included in the 2011 Preliminary Budget that was presented at the Town meeting on October 19, 2010. Further discussion is scheduled for a supplemental meeting of the Town Board on October 25, 2010.

The balance of the excess and any amounts not approved to be included in the Unexpended Balance portion of the Budget due to unforeseen circumstances will be utilized to finance one-time unexpected expenses and to replace worn and/or damaged equipment. A portion of the excess funds is currently in an equipment reserve fund.

The Town Supervisor will facilitate discussions pertaining to these excess funds and elicit majority consensus as to the most beneficial use of such funds for the benefit of the taxpayers. Closer inspection of monthly and annual reports by the Town Supervisor and the Town Board will provide opportunity to keep excess funds to a more acceptable level.

Audit Recommendation #2

The Board should ensure that it receives the necessary financial documentation to monitor the Town's financial condition to ensure that excessive fund balance and cash surpluses do not recur.

Implementation Plan of Action:

The independent accounting firm, Robert L. Tackabury, CPA, has been hired to provide bookkeeping services. Item #6, as listed in their engagement letter dated June 7, 2010, states that they will produce financial reports as required for the Town's monthly board meetings, including a Balance Sheet report, and a Profit and Loss Statement (P&L) which will compare current monthly and year-to-date income and expenses to the budget. As of July 1, 2010 the current year's financial records have been communicated to this firm and bookkeeping services are being provided and recorded via the [REDACTED] system.

The Town Supervisor is retrieving and reviewing the monthly reports from the bookkeeping servicer and presenting these to the Town Board for approval at the scheduled monthly meeting.

Audit Recommendation #3

The Supervisor should maintain general ledgers, cash receipt and disbursement records, revenue and expenditure ledgers and cash control accounts for each fund. If the Supervisor assigns these duties to a bookkeeper, he should provide sufficient oversight to ensure that the assistant maintains suitable records.

Implementation Plan of Action:

In addition to the services outlined above in #2, Robert L. Tackabury, CPA, as of July 1, 2010, is reconciling all the Town's cash, certificate of deposit and money market bank accounts to the general ledger on a monthly basis. Reconciling entries are posted to the general ledger, including interest income. Those reconciliations are available for review at any time. The Supervisor will be periodically – and at least once per quarter – reviewing and/or performing the cash reconciliations for accuracy.

Effective June 25, 2010, cash receipts not recorded by the Town Clerk through her office are either received through the mail, which is opened by the Town Clerk or by the Secretary to the Supervisor, or

received in person to the Town Clerk or to the Secretary to the Supervisor. These receipts are then coded for the proper fund and deposited by the Secretary to the Supervisor, who then saves the bank receipts for the bookkeeper at the end of the month to reconcile to the monthly bank statement. Those bank receipts, along with any corresponding documentation, are maintained in a file by month by the Secretary to the Supervisor.

Expense invoices, other than monthly prepaids, are received by the Town Clerk, who then records them on abstracts for approval at the monthly Town board meeting. Once approved, the Secretary to the Supervisor transcribes the abstracts onto [REDACTED] spreadsheet for transmittal to the independent bookkeeping service via email. The bookkeeping service prepares the checks. The Town Supervisor reviews and signs them and the Secretary to the Supervisor mails them out with any remittance stubs. The original invoices are maintained by the Town Clerk and the Secretary to the Supervisor maintains the hard copy abstracts and the check stubs in a file by month.

Audit Recommendation #4

Town officials should review the financial activities of the various Town funds and determine the extent to which if taxpayer inequities have occurred. If taxpayer inequities are identified, town officials should seek legal counsel to determine what remedies are available.

Implementation Plan of Action:

Effective July 1, 2010, monthly and year-to-date financial reports are now being presented to the Town Board for review, discussion and approval at the monthly Town board meeting. The Profit and Loss statements include actual to budget comparisons. Large discrepancies can be inspected closely to determine if taxpayer inequities may be an issue. If so, Steven Jones, a local attorney, who has been retained by the Town for legal consultation, can be contacted by the Town Supervisor to determine what the best course of action to correct the inequity may be.

Audit Recommendation #5

The Supervisor should provide monthly financial reports to the Board that include statements of moneys received and disbursed, budget to actual comparisons, fund balances and cash balances for each fund. The Board should use these monthly reports as a means to monitor the Town's financial operations.

Implementation Plan of Action:

The independent accounting firm, Robert L. Tackabury, CPA, has been hired to provide bookkeeping services. Item #6, as listed in their engagement letter dated June 7, 2010, states that they will produce financial reports as required for the Town's monthly board meetings, including a Balance Sheet report, and a Profit and Loss Statement (P&L) which will compare current monthly and year-to-date income and expenses to the budget. As of July 1, 2010 the current year's financial records have been communicated to this firm and bookkeeping services are being provided and recorded via the [REDACTED] system.

The Town Supervisor is retrieving and reviewing the monthly reports from the bookkeeping servicer and presenting these to the Town Board for approval at the scheduled monthly meeting.

Audit Recommendation #6

The Supervisor should prepare and file annual financial reports with the Office of the State Comptroller and the Town Clerk within 90 days after the close of the fiscal year.

Implementation Plan of Action:

The independent accounting firm, Robert L. Tackabury, CPA, has been hired to provide bookkeeping services. Item #9, as listed in their engagement letter dated June 7, 2010, states that they will prepare the “Annual Financial Report Update Document” for the Town. This firm currently manages the bookkeeping services for two other local municipalities and is familiar with the intricacies of filing the required annual paperwork. The first year they will prepare the annual financial report will be for the 2010 fiscal year. The Town Supervisor will be responsible for reviewing the accuracy and completeness of the report.

Audit Recommendation #7

On an annual basis, the Board should audit, or cause to be audited, the records and reports of the Supervisor.

Implementation Plan of Action:

Effective with the end of the 2010 fiscal year, the Town board will conduct an annual audit of the records of the Supervisor. At least two members of the Town board will be selected to form an audit committee which will examine the various financial records and reports maintained by the Supervisor, the independent bookkeeping service and any supporting documentation maintained by the Secretary to the Supervisor. A status report will be presented to the Town board no later than the February 2011 monthly Board meeting.

Audit Recommendation #8

The Board and Supervisor should segregate the duties of the bookkeeper and assistant bookkeeper or establish compensating controls such as periodic reviews of the accounting records, bank statements or cancelled checks.

Implementation Plan of Action:

As outlined in the response to *Audit Recommendation #3*, effective June 25, 2010, the duties of bookkeeper and assistant bookkeeper have been segregated. The duties of the bookkeeper have been hired out to an independent accounting firm, experienced in the practices of municipal financial recordkeeping and the duties of assistant bookkeeper are now managed by the Secretary to the Supervisor, who attends to the clerical portions of the duties on a 5-hour work week basis.

The Town Supervisor will perform periodic reviews of the accounting records and bank statements. Copies of cancelled checks are readily available through the depositing bank’s online system and are provided with the monthly statements.

Audit Recommendation #9

The Supervisor should review bank reconciliations prepared by the bookkeeper, or prepare bank reconciliations himself, and ensure they are presented to the Board for review. Any discrepancies should be investigated and corrected immediately.

Implementation Plan of Action:

Effective with the month ending October 2010, the bookkeeper will email the monthly bank reconciliations from the [REDACTED] records to the Secretary to the Supervisor, who will then print them off for the Supervisor to review and present to the Board. Any discrepancies will be addressed with the bookkeeping service providers.

FINAL WORDS:

The Town board has appreciated your findings and recommendations to improve the fiscal management of our local government. In addition to managing the many personnel changes this past year and effecting the changes outlined above, the Board has succeeded in establishing the following:

1. Written Procurement Policy
2. Rules for the Town Council
3. Ethics Rules Policy
4. Highway Policy Manual
5. New Resolution Form for moneys transfer.

I look forward to working with the Office of the State Comptroller in continuing to improve our operations and efficiency.

Sincerely,



Robert H. Kuiper
Supervisor

cc: Peter Darby, Deputy Supervisor
David Holcomb, Councilor
David Crumb, Councilor
Carolyn Todd, Councilor

RHK/stu

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. Our initial assessment included evaluations of the following areas: financial condition, cash receipts and disbursements, Supervisor's records and reports, purchasing and claims processing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents such as Board minutes, bank statements, and available financial documents and records. 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 upon the reported objectives and scope by selecting for audit those areas most at risk. We selected financial condition, Supervisor's records and reports, and cash receipts and disbursements for further audit testing.

To assess financial condition:

- We interviewed Town officials to obtain an understanding of the organization and the accounting system, identify key personnel, and to determine the reason for the significant cash balance.
- We reviewed the limited financial records and reports available to determine if transactions were recorded.
- We determined the cash balance as of December 31, 2007 and compared it to the budgeted appropriations for 2008.
- We determined the cash balance as of December 31, 2008 and compared it to the budgeted appropriations for 2009.
- We reviewed cancelled checks for January through March 2009 to identify any significant payments that related to 2008, material accounts payable or outstanding checks.

For the Supervisor's records and reports, we interviewed Town officials and reviewed records and documents to determine whether:

- Duties and responsibilities had been established for officials and employees involved with maintaining the accounting records
- Adequate records were available, and where and how the records were maintained
- The Supervisor provided monthly financial reports to the Board
- The Supervisor filed annual financial reports with the State Comptroller and Town Clerk

- The Board-audited the Supervisor's records and reports Board annually.

For cash receipts and disbursements:

- We evaluated internal controls including the segregation of duties and management oversight.
- We confirmed all bank account and certificate of deposit (CD) balances as of July 31, 2009. We also verified that we had bank statements and cancelled check images for all bank accounts.
- We traced State aid revenues from January 1, 2008 through July 31, 2009, monthly Justice and monthly Clerk revenues from November 2008 through February 2009, and annual real property tax revenues for 2008 and 2009 to deposits on bank statements.
- We traced all bank statement disbursements from November 2008 through January 2009 totaling \$448,377 to cancelled check images, and to either approved abstracts, certified payrolls, or deposits to other bank accounts.
- We scanned all cancelled check images and bank debits from January 1, 2008 through July 31, 2009 for suspicious items or unusual payees. We traced 97 disbursements totaling \$217,930 to approvals for payment.
- We reviewed documentation from January 1, 2008 through July 31, 2009 to account for CD transactions, including the disposition of interest earned.

We conducted our 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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