



Town of Gardiner

Selected Financial Activities

Report of Examination

Period Covered:

January 1, 2011 — August 30, 2012

2013M-67



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of Local Officials and Corrective Action	6
CASH RECEIPTS AND DISBURSEMENTS	7
Segregation of Duties	7
Cash Receipts	8
Cash Disbursements	9
Recommendations	10
RECORDKEEPING	12
Reserve Funds	12
Library Fund	13
Recommendations	14
BOARD OVERSIGHT	15
Electronic Transfers	15
Annual Audit	16
Open Space Program	16
Recommendations	17
APPENDIX A Response From Local Officials	18
APPENDIX B Audit Methodology and Standards	20
APPENDIX C How to Obtain Additional Copies of the Report	22
APPENDIX D Local Regional Office Listing	23

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2013

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 Town of Gardiner, entitled Selected Financial Activities. 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 Gardiner (Town) is located in Ulster County and has a population of approximately 5,700. The Town Board (Board) is the legislative body that is responsible for managing Town operations including establishing internal controls. The Town Supervisor (Supervisor) is a member of the Board and is responsible for safeguarding Town money, maintaining accounting records, and preparing and providing reports to the Board. The Town's budgeted appropriations for 2011 and 2012 were approximately \$2.5 million each year.

Scope and Objective

The objective of our audit was to examine internal controls over cash receipts and disbursements and the Board's oversight of the Town's financial activities for the period January 1, 2011, to August 30, 2012. We extended our scope back to June 1, 2010, to review receipts and disbursements for the Open Space program. Our audit addressed the following related questions:

- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard assets?
- Did Town officials ensure that all accounting records were accurate, complete, and up-to-date?
- Did the Board provide adequate oversight of the Town's financial activities to ensure that Town resources are safeguarded?

Audit Results

Internal controls over cash receipts and disbursements were not appropriately designed or operating effectively. The bookkeeper's cash receipt and disbursement duties were not adequately segregated and Town officials have not established compensating controls such as a periodic review of accounting records or bank statements. In addition, 13 deposits totaling \$2.33 million were not recorded until five or more days after deposit with one as long as 33 days after deposit, and duplicate receipts or daily receipt logs were not used. Furthermore, because the abstracts presented to the Board did not include manually processed checks, 21 percent of the claims paid by the Town totaling \$846,560 were not audited prior to payment, and 18 claims totaling \$293,160 that were paid lacked sufficient documentation such as written contracts or rate schedules. As a result, Town officials do not have adequate assurance all moneys received are recorded and accounted for and that all payments are for valid Town expenditures.

Town officials have not ensured that accounting records are accurate, complete and up-to-date. Town records indicate that the Town has 17 reserve funds totaling \$506,658. However, 16 of the reserve funds are maintained in one bank account, separate accounting records are not maintained for each of the reserve funds, and 15 of the reserve funds have not been properly established. In addition, until July 2011, the Town bookkeeper also maintained the accounting records for the Gardiner Library. The former Supervisor paid \$173,000 to the Library as settlement for the balance of the 2011 real property taxes, capital fund balance and the unexpended library fund balances from prior years. However, there was no documentation to support this payment. As a result, there is no assurance reserve funds will be used properly or that the moneys paid to the Library were correct.

The Board needs to improve its oversight to ensure that Town resources are adequately safeguarded. For example, the Board has not entered into an agreement or established a policy regarding electronic transfers of Town funds. As a result, the bookkeeper authorizes and initiates electronic transfers, receives bank confirmations and records electronic transfers, all without supervisory review. In addition, the Board has not audited the financial records of the Clerk or Supervisor for 2010 or 2011. This results in an increased risk that moneys may be transferred improperly or that discrepancies could occur. Furthermore, the Town has partnered with a not-for-profit organization (NFP) to purchase land for open space. However, the Town solicited donations totaling \$75,000, despite no express authority for the Town to do so, and the payment of \$50,000 to the NFP toward the NFP's purchase of open space was done without a contract. In the absence of a contract, such a payment constitutes a gift and Town officials have no assurance that the funds will be expended as intended.

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 have initiated corrective action.

Introduction

Background

The Town of Gardiner (Town) is located in Ulster County and has a population of approximately 5,700. The Town Board (Board) is the elected five-member legislative body that is responsible for managing Town operations including establishing internal controls. The Town Supervisor (Supervisor) is a member of the Board and serves as the chief executive and chief fiscal officer (CFO). The Town provides various services including street maintenance and general government support. Most of the Town's expenditures are accounted for in the general and highway funds. The Town's total budgeted appropriations for the 2011 and 2012 fiscal years were approximately \$2.5 in each year and were funded primarily with real property taxes, sales taxes and mortgage taxes.

As the CFO, the Supervisor is responsible for safeguarding Town moneys, maintaining accounting records, and preparing and providing financial reports to the Board. The Town employs a bookkeeper to process cash receipts and disbursements and record all financial activities. The Town Clerk (Clerk) is responsible for recording fees collected and for disbursing those fees to the Supervisor and other third parties.

Objective

The objective of our audit was to examine internal controls over cash receipts and disbursements and the Board's oversight of the Town's financial activities. Our audit addressed the following related questions:

- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard assets?
- Did Town officials ensure that all accounting records were accurate, complete, and up-to-date?
- Did the Board provide adequate oversight of the Town's financial activities to ensure that Town resources are safeguarded?

Scope and Methodology

We examined cash receipts and disbursements, recordkeeping, and Board oversight for Town for the period January 1, 2011, to August 30, 2012. We extended our scope back to June 2010 to review receipts and disbursements for the Open Space Program.

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 have initiated 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 Town Board to make this plan available for public review in the Clerk's office.

Cash Receipts and Disbursements

The Board is responsible for establishing a system of internal controls that provides reasonable assurance that cash is safeguarded and financial transactions are properly recorded. Controls include the segregation of duties to ensure that no individual performs all phases of a transaction, and ensuring that accounting records are up-to-date, complete and accurate. Town officials are responsible for ensuring that press-numbered duplicate receipts are issued to all customers that indicate when payment was received and the form of payment (i.e., cash or check), and the Board is responsible for auditing and approving claims prior to payment.

We found that the bookkeeper's cash receipt and disbursement duties were not adequately segregated, deposits were not recorded in a timely manner, and duplicate receipts were not issued. Because the abstracts of claims did not include manually processed checks, 21 percent of all claims paid by the Town were not audited by the Board prior to payment. In addition, 18 claims that were paid lacked sufficient documentation such as written contracts or rate schedules. As a result, Town officials do not have adequate assurance that all moneys are accounted for or that all payments were for valid Town expenditures.

Segregation of Duties

To safeguard cash, the same individual should not prepare and disburse checks, record transactions in the accounting records, and perform bank reconciliations. When it is not practical to segregate these duties, the Supervisor should implement compensating controls such as a periodic review of accounting records to ensure that they are up-to-date, complete, and accurate, and a review bank statements and reconciliations to ensure cash receipts and disbursements are properly accounted for.

The bookkeeper's functions are not adequately segregated and her activities are not adequately overseen by Town officials. The bookkeeper receives grants, mortgage and sales taxes, departmental receipts from the Clerk, and donations from the public. The bookkeeper also prepares deposits slips, makes the deposits, records the transactions, prepares checks for payment, transfers money electronically between bank accounts, and reconciles the bank accounts without adequate oversight. We tested 65 deposits totaling \$5,395,434, 42 disbursements totaling \$674,810, and nine electronic transfers totaling \$67,477 made during the audit period. As discussed later in this report,¹ 13 deposits totaling \$2.33 million

¹ See related comments entitled "Cash Receipts," "Cash Disbursements," and "Electronic Transfers."

were not recorded until five or more days after deposit and one as long as 33 days after deposit. We also found numerous deficiencies in the disbursements, most notably in the disbursements that were processed manually. The nine electronic transactions appeared valid; however, there was no indication of prior approval or verification by management after the transactions occurred.

Allowing one individual to be responsible for cash custody and recordkeeping without oversight increases the risk that cash receipts will not be deposited and recorded, disbursements will not be documented and authorized, or irregularities could occur and remain undetected and uncorrected.

Cash Receipts

The Supervisor must keep an accurate and complete account of all moneys that come into his office, in books of account in the form prescribed by the Office of the State Comptroller. The bookkeeper is responsible for maintaining the Supervisor's records, including recording all deposits in a timely manner. The Board should require that press-numbered duplicate receipts be issued and that the bookkeeper prepare a daily cash log of all receipts to provide a means to verify that all moneys received have been deposited.

The bookkeeper deposited moneys into the Town bank accounts before recording the receipts in the Town's accounting records. We tested 65 receipts totaling \$5,395,434, comprising all revenues received by the bookkeeper for three months, and found that 13 deposits totaling \$2,337,987 were not recorded in a timely manner:

- Four receipts were recorded five days after deposit, totaling \$2,293,839.
- Four receipts were recorded between 11 and 15 days after deposit, totaling \$35,690.
- Five receipts were recorded between 16 and 33 days after deposit, totaling \$6,136.

The bookkeeper stated that she was busy, and therefore did not get to record the receipts. Without timely recordkeeping, the Board does not have complete and accurate information to base their financial decisions.

Open Space Program — In 2009, the Board adopted a local law establishing an Open Space Program to acquire and preserve farmlands as open space by acquiring easement rights to farmlands. The Board adopted a resolution to partner with a not-for-profit organization (NFP) to achieve this goal. The NFP obtained grants and the Town

raised the remaining funds through fundraisers to purchase the easements. Since June 2010, the Town has collected approximately \$75,000 in donations that were deposited into a Town bank account. However, there are no duplicate receipts for the Open Space Program to indicate when payments were received and the form of payment (i.e., cash or check), or daily receipt logs to verify that all donations collected were deposited.

Due to the lack of duplicate receipts and daily cash logs, and the late posting of deposits, Town officials do not have adequate assurance that all moneys received by the Town have been properly recorded and accounted for. As a result, moneys could be missing and go undetected.

Cash Disbursements

Town law requires the Board to audit all claims prior to payment to ensure the underlying disbursements are properly authorized, are supported by sufficient documentation, and are for goods and services actually received by the Town.²

The Town's computerized accounting system sequentially numbers claims and checks. This makes it possible for Town officials to monitor transactions from their inception to the accounting records and reports. Computer processed claims and checks are automatically included in the financial records and on the monthly abstracts, and are audited prior to payment. However, claims and checks that are manually processed outside of the computerized accounting system are not numbered or included in the financial records until they are manually entered.

The bookkeeper disbursed approximately \$4 million during the audit period, of which 86 checks representing 21 percent or \$846,560 were manually processed (hand-written). We tested 21 of the 86 manually processed payments totaling \$425,056 and 21 computer processed payments totaling \$249,754 to determine whether claims contained proper approval for payment, had sufficient documentation to establish that they were for valid Town expenditures, and whether sales tax was incorrectly charged to the Town.

None of the 21 manual checks were approved by the Board prior to payment approval, including a \$173,000 payment to the Gardiner Library, a \$50,000 payment to a NFP organization, and a \$10,000

² The Board may authorize by resolution the payment in advance of the audit of claims for payments such as public utility services, postage, and freight and express charges. Salaries, compensation to officers, debt payments, and amounts coming due on lawful contracts exceeding one year are also permitted to be paid prior to Board audit.

payment for a health insurance deductible program. The \$50,000 payment to the NFP was paid in January 2011 but was not posted until November 2011, ten months after the check was written. We observed other deficiencies, which included seven claims totaling about \$248,000 with insufficient detail, to determine whether they were valid Town expenditures, and eleven payments totaling \$45,000 made without a contract or rate schedule in force which prevented payment verification.

Manually processed payments are at a greater risk of containing errors and/or irregularities because they are made without prior Board approval to determine if they include sufficient documentation such as written contracts or rate schedules to verify that the amounts paid are correct. Although we did find a few exceptions in the computer processed claims, the exceptions were not as significant as those in the manually processed claims. Allowing manual payments circumvents controls and prevents the Board from ensuring that all payments are for valid Town purposes. Additionally, when manual checks are not entered into the system, the abstracts printed from the system are incomplete and inaccurate.

Abstracts — An abstract is a list of claims and, when certified by the Clerk, is a directive from the Board to pay claims. The abstracts did not include the manually processed payments and payments made to the Town's fire districts. For example, actual payments made during February 2011 were \$179,070. Because Town officials did not monitor the check sequencing, manual checks totaling \$88,775 were not included on the abstract. As a result, the abstract showed payments of only \$90,295

Because the abstracts are not complete, all cash disbursements are not being reported to the Board. As a result, the Board and taxpayers cannot be assured that all payments are for valid Town expenditures.

Recommendations

1. The Board should either segregate incompatible duties, such as the cash receipts and disbursements processes, or implement compensating controls.
2. The Supervisor should ensure that the bookkeeper records all deposits in the Town's financial records in a timely manner after depositing the funds in Town bank accounts.
3. The Board should require press-numbered duplicate receipts to be issued when funds are received and that the bookkeeper prepares daily cash logs of all receipts.

4. The Board should approve all claims prior to payment to ensure they include sufficient documentation, such as written contracts or rate schedules, to determine that they represent valid Town expenditures.
5. Town officials should require that manually processed payments be kept to a minimum and that they are posted to the computerized accounting system in timely manner.
6. The Board should require that all claims be listed on abstracts and monitor the check sequence to ensure all payments, both computer processed and manually processed, are included.

Recordkeeping

Financial records, including cash receipts and disbursements journals and subsidiary revenue and expenditure ledgers, must be complete, accurate, and maintained on a timely basis. Statutory provisions generally require that reserve funds be maintained in separate accounts.

Town records indicate that the Town has 17 reserve funds. However, 16 of the reserve funds are maintained in one bank account and separate accounting records are not maintained for each of the reserve funds. In addition, 15 of the reserve funds have not been properly established. Until July 2011, the Town bookkeeper also maintained the accounting records for the Gardiner Library. The former Supervisor paid \$173,000 to the Library as settlement for the real property taxes, capital fund balance, and library fund balance. However, there was no documentation to support this payment. As a result, there is no assurance reserve funds will be used properly or that the moneys paid to the Library are correct.

Reserve Funds

Towns may establish a number of different kinds of reserve funds in accordance with General Municipal Law (GML). To establish a capital reserve fund, the Board must adopt a resolution for either a “specific or type” capital improvement. In some cases, the resolution must contain additional information and/or is subject to referendum requirements.³ The Board may also adopt a resolution, without referendum, to establish a reserve for a “type” of capital improvement; with certain exceptions, generally a permissive referendum is required prior to expenditure, unless the period of probable usefulness is less than five years. Expenditures from reserve funds must also be authorized by Board resolution.⁴

In situations where a local government does not follow the proper procedure to establish a reserve fund, but accumulates moneys for a purpose for which it may establish a reserve fund and treats the moneys as a reserve fund through a persistent course of conduct, the accumulated moneys constitute a de facto reserve fund. In these situations, the local government should legalize the reserve fund by following the proper procedure to establish the fund. GML also

³ For example, the Board, by resolution subject to a permissive referendum, may establish a capital reserve fund to accumulate moneys to finance the cost of a “specific” capital improvement or equipment.

⁴ A resolution authorizing expenditure from a reserve fund must state the purpose and amount of the expenditure and, in some cases, is subject to additional procedural steps, such as compliance with public hearing or referendum requirements.

requires maintenance of appropriate records to clearly indicate the method of funding and expending of each reserve. Town law requires the CFO to keep a separate account for each such reserve fund showing dates and amounts of all funding and all expenditures made from the fund.

Town records indicate that the Town has 17 reserve funds. The Clerk provided resolutions indicating the Board properly established two of these reserve funds (the contingency and tax stabilization reserve fund and a Town hall repair reserve fund). In addition, the local law that established the Open Space Program also established “The Town of Gardiner Open Space Preservation and Acquisition Fund.” However, this fund was not included as a reserve fund in the accounting records or the annual report. Furthermore, the resolution establishing the Town hall repair reserve fund stipulated that the moneys were to be deposited in a separate bank account. However, this was not done; all the moneys except the Open Space reserve moneys were maintained in one bank account.

Furthermore, the bookkeeper did not maintain separate accounting records for each of the reserve funds. At year-end 2011, the Town’s records indicated there were 17 reserve funds totaling \$506,685. However, the Town’s reported reserve funds totaled only \$460,285 on the 2011 annual update document (AUD) submitted to the Office of the State Comptroller. This amount excluded \$46,373 of highway reserves, of which \$5,683 was reported in error as “other restrict fund balance.” In addition, the Town reported \$22,324 as general reserve in the general fund; however, general reserves are restricted for use only by suburban towns.⁵ The correct reporting should be \$20,086 as a capital reserve and \$2,238 as a retirement contribution reserve.

Due to the failure to follow proper procedures for the establishment of reserve funds and for keeping proper accounting records, Town officials cannot assure the taxpayers that the funds will be used properly and for the purpose intended.

Library Fund

The Gardiner Library (Library) is a public library. The Town Board appoints the Library Trustees, who in turn approve the Library budget. Although the Library has its own Treasurer, the Library Trustees previously agreed that the Town bookkeeper would pay the Library’s claims and maintain its accounting records using the Town’s library fund and capital fund. The Supervisor was required to ensure that proper and accurate accounting records were maintained on behalf of the Library.

⁵ Suburban towns must meet certain criteria such as population size and proximity to a city and must function formally pursuant to the provisions of Town Law.

The Town collected 2011 real property taxes totaling \$229,230 on behalf of the Library and paid all expenses for the Library until July 2011. The Library Trustees decided that as of July 2011, the Library Treasurer would begin to perform the accounting duties for the Library. As a result, the former Supervisor presented a check to the Library for \$173,000 as settlement for the balance of the 2011 real property taxes, capital fund balance, and the unexpended library fund balances from prior years. However, there was no documentation to support this payment amount. The bookkeeper explained that, \$173,000 was the balance of the 2011 taxes after claims were paid plus the fund balance at the beginning of the year; but could not provide documentation to support that statement.

We compared the Library bank account transactions for 2011, the AUD, the library fund expenditure detail report, the Supervisor's monthly reports to the Board, and the bookkeeper's summary of disbursements reports and found that the records were not in agreement. Without proper and accurate accounting records and documentation, Town officials and taxpayers cannot be assured that moneys paid to the Library were correct.

Recommendations

7. The Board should review the legal requirements governing reserve funds and ensure that the Town complies with applicable statutory provisions for the establishment and use of such funds and accounting for all reserve funds. This includes ensuring that:
 - The "Town of Gardiner Open Space Preservation and Acquisition Fund" is included as a reserve fund in the accounting records and annual report.
 - Separate accounting records are maintained for each reserve fund.
 - Highway reserves are properly reported.
 - General reserves totaling \$22,324 are reclassified as a capital reserve and a retirement contribution reserve.
8. The Supervisor should require that proper and accurate accounting records are maintained.
9. The Board should review the payment made to the Library and determine whether the amount was appropriate, and take necessary actions if it determines that the amount was not correct.

Board Oversight

The Board is responsible for the general management and control of the Town's financial operations, including establishing controls over the initiation, confirmation, and recording of electronic transfers. The Board is also responsible for auditing the financial records of the Clerk and Supervisor, limiting the Town's activities to those areas where express authority exists, and entering into written agreements to ensure that Town funds are expended as intended.

The Board has not entered into an agreement or established a policy regarding electronic transfers of Town funds. As a result, the bookkeeper authorizes and initiates electronic transfers, receives bank confirmations, and records electronic transfers, all without supervisory review. In addition, the Board has not audited the financial records of the Clerk or Supervisor for 2010 or 2011. This results in an increased risk that discrepancies could occur. Furthermore, the Town has solicited donations totaling \$75,000 for the purchase of land but had no express authority for the Town to do so. Town officials also paid \$50,000 to an NFP without a contract. Without a contract, the payment constitutes a gift and Town officials have no assurance that funds will be expended as intended.

Electronic Transfers

Online banking offers municipalities the ability to make transfers between bank accounts. Because electronic transfers can disburse significant amounts of money, usually within minutes of being executed, it is essential that Town officials ensure that such transactions are reviewed and authorized in a timely manner.

The law requires that the Board enter into a written agreement with its banking institution, prescribing the manner in which electronic transfers will be accomplished, identifying by number and name those accounts from which the electronic transfers may be made, and identifying the officer or officers authorized to make electronic transfers. At least two Town officials should be involved in each electronic transaction, one for authorization and one for transmittal. In addition, Town officials should have a callback provision in the written agreement that requires the bank to call someone other than the person initiating the transaction to confirm the appropriateness of the transfer. Further, the financial institution must provide a written confirmation of the transaction no later than the business day following the day on which the funds were transmitted. The confirmation should not be received by the same individual who initiates the transfers.

The Board did not enter into a written agreement with its bank for electronic transfers. In addition, the Board has not adopted a written

policy and Town officials have not developed written procedures for electronic transfers. As a result, the bookkeeper, without a written agreement, uses the Internet to authorize and initiate electronic transfers of Town moneys among accounts within the same bank. The bookkeeper also receives bank confirmations and records electronic transfers, all without supervisory review. Because these incompatible duties are not segregated, there is an increased risk that moneys may be transferred improperly, or that a transfer will not be properly recorded and documented.

We reviewed nine electronic transfers of reserve fund moneys totaling \$67,477 to determine whether they were preauthorized, were for valid Town purposes, and were reviewed by Town officials in a timely manner. While all nine electronic transfers were properly made to Town bank accounts, the transfers were initiated by the bookkeeper and there was no evidence that any Town official received and reviewed any of the transfer confirmations. Although our review did not reveal any improprieties, the Board still needs to improve controls to ensure that the bank allows only authorized Town officials to perform electronic transfers and that appropriate security measures are in place.

Annual Audit

Town Law requires an annual audit, by January 20th of the following year, of the financial records of each officer or employee who received or disbursed any money in the previous year. The Board can either perform the audit or have the audit done by an independent source. After the audit is complete, it should be entered in the minutes of the Board's proceedings, and documentation should be filed detailing the records reviewed and the results of the audit.

The Board has not audited, or provided for an audit of, the financial records of the Clerk or Supervisor for the 2010 and 2011 fiscal years. The Board's failure to perform an annual audit diminishes its ability to effectively monitor the Town's financial operations and could result in discrepancies occurring and remaining undetected and uncorrected.

Open Space Program

Environmental Conservation Law allows either a public body or a qualifying NFP to acquire conservation easements and GML declares the acquisition of interests or rights in real property for the preservation of open space to be a public purpose for which a town may expend its moneys. However, it is clear the underlying purpose of that grant of authority relates to a town's own acquisition of open space. In addition, there is no express authority for a town to conduct fund-raising activities to raise money for the acquisition of an easement. Although Town Law allows a municipality to accept donations, it is the Office of the State Comptroller's opinion that the authority to accept gifts does not provide implied authority to solicit gifts.

In June 2010, the Board formed a fund-raising committee to raise money for an NFP to purchase land for open space. The Town partnered with the NFP to obtain funds through grants and sponsored fund-raising activities, soliciting donations to secure easement rights for two farms within its borders to achieve this goal. The Town collected approximately \$75,000 from donations between June 2010 and August 2012 for the program. In addition, the former Supervisor paid a \$50,000 partnering expense to the NFP to be used toward the NFP's purchase of open space without executing a contract between the Town and the NFP. Without a contract, the payment of Town moneys to the NFP constitutes a gift. However, if there was a contract, such as for the maintenance of the open space, the Town moneys would be compensation and not a gift.

Without proper oversight of the Open Space Program and a contract between the parties, Town officials have no assurance that funds will be properly obtained and expended as intended.

Recommendations

10. The Board should enter into a written agreement with its bank for electronic transfers, and the Board should adopt a written policy and Town officials should develop written procedures for electronic transfers. The Board should ensure that:
 - At least two Town officials are involved in each electronic transaction, one for authorization and one for transmittal.
 - There is a callback provision that involves someone other than the person initiating the transaction.
 - The financial institution provides a written confirmation of the transaction. The confirmation should not be received by the same individual who initiates the transfers.
11. The Board should perform or cause an annual audit of the financial records of the Clerk and Supervisor.
12. The Board should not permit the Town to conduct fund-raisers for NFP organizations and should have a formal contract with private groups when services are provided and compensated.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF GARDINER

P.O. Box 1, GARDINER, NEW YORK 12525-0001 (845) 255-9675 Fax: (845) 255-9146


Town Hall Offices
2340 Route 44/55

Town Meeting Hall
2340 Route 44/55

Carl Zatz
Supervisor

Michelle L. Mosher
Town Clerk

May 27, 2013

To: 
Office of the State Comptroller

Fr: Carl Zatz, Town Supervisor
Town of Gardiner

Cc: Michelle Mosher, Town Clerk

Re: Town of Gardiner Selected Financial Activities Report Examination for the Period Covered:
January 1, 2011 – August 30, 2012

In response to the above named report, the Town of Gardiner concurs with the report's findings and has no further comments. The Town has begun taking corrective action based on the recommendations included in the report. Details of those actions follow.

Thank you very much for your time assisting in understanding many of the issues raised during your examination of our activities.

Carl Zatz, Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed Town officials, performed limited tests, and reviewed pertinent documents such as Town policies and procedures, Board minutes, and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit the areas most at risk. We selected cash receipts and disbursements, recordkeeping, and Board oversight for further audit testing. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and gained an understanding as to the internal controls over cash receipts and cash disbursements.
- We tested three months of cash receipts for the timeliness of posting deposits to the accounting system.
- Using the cash disbursements report from our software analysis of the Town's records, we sorted disbursements as manually processed payments and computer processed payments.
- We tested manually processed payments and computer processed payments by selecting at least one payment for each month of our audit period and obtaining the claim with all supporting documentation and the bank's check image. We tested each payment for department approval and Board authorization. We also determined if the supporting documentation contained adequate detail for the payment and if sales tax was charged to the Town.
- We obtained the handwritten abstracts and the certified abstracts for each month of our audit period, and determined if the abstracts were complete and accurate.
- We reviewed Board resolutions to determine whether the various reserves were properly established and expended. We obtained the bank statements for the reserve bank account and the accounting for each reserve and reconciled them. We scheduled the changes in the reserve funds and reviewed the minutes to ensure the Board authorized the changes.
- We compared Library bank account transactions, accounting records, and reports to determine if they were in agreement.
- We inquired as to internal controls and/or procedures for electronic transfers, annual audits, and the Open Space Program.

- We reviewed all nine electronic transfers totaling \$67,477 to determine whether they were preauthorized, were for valid Town purposes, and were reviewed by the Board in a timely manner.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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APPENDIX D
OFFICE OF THE STATE COMPTROLLER
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