



Town of Newfield

Selected Financial Activities

Report of Examination

Period Covered:

January 1, 2011 — June 11, 2012

2013M-2



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	6
Scope and Methodology	6
Comments of Local Officials and Corrective Action	6
FINANCIAL RESPONSIBILITIES	7
Receipts	8
Disbursements	8
Accounting Records	8
Reporting	9
Recommendations	10
WATER OPERATIONS	12
Unaccounted-For Water	12
Water Billing	13
Recommendations	14
APPENDIX A	Response From Local Officials 15
APPENDIX B	OSC Comments on the Town's Response 20
APPENDIX C	Audit Methodology and Standards 21
APPENDIX D	How to Obtain Additional Copies of the Report 23
APPENDIX E	Local Regional Office Listing 24

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 the Town of Newfield, 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 Newfield (Town) is located in Tompkins County and has a population of about 5,000 residents. For the 2012 fiscal year, the Town had budgeted appropriations of approximately \$2.4 million. The Town is governed by an elected five-member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four council members. The Town employed various bookkeepers throughout our audit period. The Town provides water service to approximately 480 residential and commercial accounts in its two water districts. The Water Supervisor is responsible for reading meters and ensuring water is drinkable. The Town Clerk bills and collects the water user fees.

Scope and Objective

The objective of our audit was to review selected financial activities for the period January 1, 2011, to June 11, 2012. Our audit addressed the following related questions:

- Did the Board ensure that the Supervisor met his fundamental financial responsibilities?
- Is the Town properly monitoring its water operations?

Audit Results

The Board did not require the Supervisor to meet the fundamental financial responsibilities of his office. The 2012 accounting records were in disarray and the 2011 accounting records could not be produced for our review. No one can be sure that all moneys received were actually recorded and deposited, and that all moneys disbursed were for proper town purposes. Additionally, the same check numbers were used numerous times. The cash account was not reconciled and had large unsupported adjustments in an attempt to force the accounting records to agree to the bank balances. Furthermore, monthly reports and annual reports were not consistently provided by the Supervisor to the Board, and the last two annual reports filed with OSC are more than one year late. As a result, the Board is making important financial decisions without having the necessary reports, which could put the Town's fiscal health in jeopardy. The last available audited financial report (for fiscal year ended 2010) showed a fund balance of \$43,000 in the general fund, and a planned use of \$91,000 of fund balance, resulting in a net deficit of \$48,000.

Town officials are not properly monitoring their water operations. Town officials do not reconcile the amount of water withdrawn from Town wells to the amount of water treated and distributed, do not have performance measures, and do not effectively plan for the acquisition and replacement of vital water district capital assets. The Town's unaccounted-for water of 39 percent was substantially

more than the Environmental Protection Agency industry standard, costing the Town approximately \$19,000 each year. In addition, water bills were calculated inaccurately.

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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

Introduction

Background

The Town of Newfield (Town) is located in Tompkins County and has a population of about 5,000 residents. The Town provides various services to its residents, including street maintenance, parks and recreation programs, water, sewer, lighting, and general government support. For the 2012 fiscal year, the Town had budgeted appropriations of approximately \$2.4 million, funded primarily with real property taxes, user charges, and State aid. The Town is governed by an elected five-member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement, and custody of Town moneys, maintaining accounting records, and providing financial reports to the Board. Although the Board is primarily responsible for internal controls, the Supervisor and department heads share this responsibility.

After the bookkeeper abruptly quit in June 2011, the Supervisor attempted to maintain the accounting records. Subsequently, he hired a temporary part-time bookkeeper in July 2011 to process the Town's payroll. In August 2011, the Supervisor requested that this part-time bookkeeper take the accounting records maintained by the previous bookkeeper¹ and enter them into the off-the-shelf software program. In October 2011, the Supervisor hired an additional permanent part-time bookkeeper to take over the recording of both the general and payroll accounting activity of the Town. The Supervisor also contracted with an individual from September 2011 to February 2012 to review and assist in completing accounting records. Additionally, the Board contracted with an external auditor and a forensic auditor to perform an annual audit of the Town's accounting records for both 2011 and 2012.

The Town provides water services to approximately 480 residential and commercial accounts located in its two water districts. The Town billed these two water district accounts approximately \$99,000 in 2011. Most users are billed on a flat fee basis, while some are billed on a usage basis. The Water Supervisor is responsible for reading meters and ensuring water is drinkable. The Town Clerk (Clerk) bills and collects the water user fees.

¹ The previous bookkeeper used multiple accounting software programs including off-the-shelf spreadsheet software and a general spreadsheet program.

Objective

The objective of our audit was to review selected financial activities. Our audit addressed the following related questions:

- Did the Board ensure that the Supervisor met his fundamental financial responsibilities?
- Is the Town properly monitoring its water operations?

**Scope and
Methodology**

We interviewed appropriate Town officials and examined financial records and reports of the Town for the period January 1, 2011, to June 11, 2012. Our audit disclosed areas in need of improvement concerning IT controls. Because of the sensitivity of this information, certain vulnerabilities are not discussed in this report but have been communicated to Town officials so they could take corrective action.

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 is included in Appendix C 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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

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 Responsibilities

The Board is responsible for the Town's overall financial management, including monitoring and evaluating financial condition. Therefore, it is essential that complete, accurate, and timely accounting records are maintained by the Supervisor to properly account for and report the Town's financial condition and activities. Although the Supervisor has primary responsibility for managing the Town's day-to-day activities, the entire Board shares responsibility for fiscal oversight and establishing a system of financial reporting.

The Supervisor should ensure that all moneys received are properly recorded and timely deposited. Moneys should be disbursed by the Supervisor only for Board-approved purposes. The Supervisor is also responsible for maintaining detailed accounting records, providing monthly financial reports to the Board and filing the annual update document (AUD) with the Office of the State Comptroller (OSC). In addition, the Supervisor must perform monthly bank-to-book reconciliations to ensure the timely identification and correction of differences between the Town's recorded cash balances and its bank cash balances. The Board should also cause the Supervisor's accounting records to be audited to ensure these responsibilities are being met. Additionally, the Supervisor is responsible for providing adequate segregation over the duties performed by the bookkeeper.

The Board did not require the Supervisor to meet the fundamental financial responsibilities of his office. No one can be sure that all moneys received were actually recorded and deposited and that all moneys disbursed were for proper Town purposes. The accounting records were in disarray and cash was not consistently reconciled. Risk was further exacerbated by a lack of segregation of the duties performed by the Supervisor, Clerk, and bookkeeper. Furthermore, the Supervisor did not provide monthly or annual reports consistently to the Board. External audits found that cash did not reconcile and there was an inadequate segregation of duties; however, no procedures or processes were amended by Town officials as a result of these findings.

The Town's poor accounting records have created an environment where the Town's financial condition cannot be effectively monitored. This puts the Town in a position where the financial condition could significantly deteriorate and the Board would not be aware of it and, therefore, not able to make informed decisions to remedy the situation. It is essential that the Board ensure that the information in the financial management system is brought up-to-date and timely

records and reports are provided so that it can exercise its oversight responsibility.

Receipts

The Supervisor is responsible for collecting, receiving, and having custody of all moneys belonging to or due the Town and depositing all money in the official Town bank account. All moneys received should be properly receipted and recorded, and deposits made timely and intact.

No one can be sure that all moneys received for water usage were properly collected and deposited timely and accurately. We examined all 86 deposits, totaling over \$143,000, collected by the Clerk for water and sewer billings.² Although we found no material discrepancies or irregularities, we did find that cash receipts were not always deposited timely. Since the Clerk is responsible for all aspects such as billing, collecting, adjusting bills and enforcing unpaid accounts, she could collect money, not deposit it, and it would not be detected.

Disbursements

The Supervisor is to disburse money only for specific purposes that do not require the Board to review and approve the payment or after the Board audits each claim presented to it. The Board's review helps to mitigate the risk that moneys will be disbursed for other than appropriate Town purposes.

The Board did not ensure that all moneys were disbursed for proper Town purposes. While the Board did audit claims presented to them prior to payment, no one verified that all payments made corresponded to a Board-approved claim. Additionally, the checking account was consolidated and consisted of nine funds, with one check number being used for multiple funds across different abstracts. Furthermore, neither the Supervisor, nor any other Town official, maintains a log of check numbers used with the corresponding total amount of each check. These poor controls hamper any attempt to verify that all disbursements were audited and approved by the Board. While we found all payments tested³ to be supported and recorded, these poor controls over, and inadequate procedures for, the disbursement of Town money create a significant risk that moneys could be disbursed for inappropriate purposes or for inaccurate amounts and go undetected.

Accounting Records

Complete and accurate accounting records maintained on a current basis provide the Board with the essential information needed to effectively manage and safeguard cash and properly monitor the Town's fiscal affairs. A bookkeeper may assist the Supervisor with

² See Water Billing and Collection for billing issues.

³ We tested \$111,000 in disbursements: 16 payments to key employees, 20 payments to unusual vendors, and 41 payments to vendors which could be for personal bills.

the maintenance of accounting records. The Supervisor is responsible for providing adequate segregation over the duties provided by the bookkeeper or implementing mitigating controls such as a review of her work.

The Supervisor did not ensure that basic accounting records were consistently and accurately maintained on a timely basis. The Supervisor told us that those during 2011 the former bookkeeper entered financial transactions in an electronic spreadsheet; however, no complete accounting records from 2011 were presented to us during our audit. Additionally, no one can determine the amount of cash available for use for any of the Town's nine funds, as the Supervisor did not ensure the accounting records were reconciled to the bank balances during 2011 and 2012. During an attempt to reconcile the recorded cash balances with the bank balances as of December 31, 2011, recorded cash was reduced, without sufficient support or reason, by \$11,000 in the consolidated checking account.⁴ Additionally, the Trust and Agency (T&A) account was unable to be reconciled. As of May 31, 2012, the consolidated checking account and the T&A account still had not been reconciled. Furthermore, we saw other unsupported adjustments to reduce cash balance, including one adjustment for \$30,000. Any attempt to reconcile cash accounts would be hampered because during testing we found one check was recorded for \$140 less than the amount that actually cleared the bank. The bookkeeper found other checks that were recorded for amounts different than the amount that actually cleared the bank; however, given the condition of the accounting records, it is unknown how many times this occurred.

Inadequate accounting records and lack of consistent bank reconciliations could allow errors and irregularities to occur and not be detected timely, if at all. Additionally, reports generated from incomplete and inaccurate accounting records are not a reliable basis for financial decisions. These things happened, in part, because the Supervisor did not provide adequate oversight of the bookkeeper's work.

Reporting

The Supervisor is required to prepare financial reports based on financial records that need to be accurate and maintained in a timely manner. In addition, the Supervisor is responsible for filing the Town's AUD with OSC within 60 days following the close of the fiscal year. The Supervisor should also be providing periodic financial reports to the Board throughout the year.

⁴ We noted similar unsubstantiated reductions to cash noted in the 2009 and 2010 CPA reports.

The Supervisor failed to consistently provide accurate financial reports. Several Board members told us they did not receive monthly reports during 2011. The Board was only presented with financial statements at the end of the Town's annual external audit. However, the audits for 2009 and 2010 were not completed until November and October of the following year, respectively. The external audit for fiscal year ended 2011 was not yet complete as of October 2012. Starting in January 2012, the Board did receive monthly reports, but the accuracy and completeness of these reports is suspect, due to accounting records being in disarray and the lack of bank reconciliations. Moreover, for the last two completed fiscal years, the Supervisor has not filed an annual report with OSC within the statutory time frame. The 2010 filing was more than one year late and as of September 2012 the 2011 report still had not been filed.

These weaknesses occurred because the Supervisor and bookkeeper performed all accounting functions with minimal oversight. Additionally, the Board did not follow-up on the results of multiple, previous-year external audits that presented findings showing that cash did not reconcile and an inadequate segregation of duties. Further, no procedures or processes were amended as a result of these findings.

When the Board and Supervisor fail to act on deficiencies brought to their attention, there is little chance that the financial operations will improve. Instead, with the continuation of these significant deficiencies, the Board is making decisions that affect the Town's future financial health, based on information with questionable accuracy. The last available audited financial statements (for fiscal year ended 2010) reported a fund balance of \$43,000 in the general fund, and a planned use of \$91,000 of fund balance, resulting in a net deficit of \$48,000. Without reliable financial information the Board was unable to determine how much fund balance was available.

Recommendations

1. The Board should ensure the Supervisor is meeting the fundamental responsibilities of the position by:
 - Ensuring moneys are disbursed based only on Board-approved claims
 - Requiring accounting records to be kept in an accurate and complete manner
 - Requiring that cash per the accounting records is periodically reconciled to cash per the bank statement

- Requiring timely and accurate monthly and annual financial reports
 - Acting on deficiencies reported by the external auditors.
 - Ensuring that the duties performed by the Clerk and the bookkeeper are adequately segregated or that mitigating controls are put in place if segregation of duties is not feasible.
2. The Board should ensure that all payments are sequentially numbered, supported by an audited claim form, and listed on an abstract of audited claims.

Water Operations

Town officials are responsible for controlling the cost of operating the Town's water districts. To fulfill this responsibility, Town officials should track water usage throughout the system and identify areas that may need attention, particularly large volumes of unaccounted-for water loss. To help identify water loss, it is essential to perform a periodic reconciliation of water processed with water billed. Periodic reconciliation of gallons withdrawn to gallons billed provides responsible officials with information necessary to detect and reduce water loss. Town officials should adopt performance measures to provide a mechanism for oversight and a long-term capital plan to address the acquisition and replacement of vital capital assets and infrastructure to ensure the Town does not incur excessive costs associated with the deterioration of the water system infrastructure. Town officials should also monitor the billing process to ensure it is accurate and timely.

Town officials are not properly monitoring their water operations. The Board has not adopted any policies or related procedures concerning water loss monitoring or addressing excessive water loss. For example, Town officials did not reconcile the amount of water withdrawn from Town wells to the amount of water treated and distributed, and did not effectively plan for the acquisition and replacement of vital capital assets and infrastructure for the water districts. The Town's unaccounted-for water of 39 percent was substantially more than the Environmental Protection Agency (EPA) industry standard.⁵ During the calendar year 2011, the Town reported that approximately 54.6 million gallons of water were treated for use, but it only billed for 33.2 million gallons of water.

Unaccounted-For Water

Unaccounted-for water is the difference between the amount of water purchased and the amount billed to customers. Unaccounted-for water includes losses from source meter errors, unmetered customers, accounting errors, illegal connections, and leaks. A large volume of unaccounted-for water is a warning sign of potentially significant problems. Periodic reconciliations provide responsible officials with the information necessary to detect and reduce water loss.

Taking into account the EPA's standard of 10 percent for unaccounted-for water, we calculated unaccounted-for water as follows:

⁵ The EPA standard is 10 percent for unaccounted-for water.

Table 1: Water Reconciliation	
Gallons of Water Withdrawn	54,674,096
Less: Gallons Billed	(33,198,480)
Total Unbilled Gallons	21,475,616
Less: 10% EPA Standard	(5,467,410)
Unaccounted-for Water in Excess of Standard	16,008,206

During the one-year period reviewed, water losses were approximately 16 million gallons. Using the contractual expenditures, we calculated the value of those water losses to be approximately \$19,000 per year.

The Town's Water Supervisor informed us that over half of the water meters in Water District #1 do not function; therefore, the Town is unable to determine the amount of water used and has to default to the minimum flat fee⁶ for these customers. The Water Supervisor told us the meters in Water District #1 were installed in the late 1960s. Although the Water Supervisor told us he had informed Town officials about the water meters issues, when we asked Board members, they told us they were not aware of the extent of the problem. These deficiencies increase the risk that the Town is wasting money by paying for water not being billed.

Water Billing

Town officials should ensure that water bills are prepared on usage in accordance with the Board-approved rate structure, and any adjustment should be supported. It is important to perform reconciliations of water customer accounts to detect billing errors or irregularities.

No one can be sure that all amounts for water usage were billed, collected and deposited accurately and timely. We reviewed one full cycle of billing calculations and found that, out of 455 water accounts, there were 80 incorrectly calculated billing amounts. Further, we found that all water accounts using more than 15,000 gallons had incorrectly calculated bills. Over- and under-billing errors totaled \$1,679.04, and the net impact on the water fund was \$111.82 of under-billing. Even though these amounts may seem immaterial, it illustrates how errors are occurring and not being detected. We also tested three billing cycles⁷ within the audit period, and found, on average, 116 errors in the calculation of water used. There was no supporting documentation for any of the identified differences in the usage calculation, but the Water Supervisor informed us that these errors were due to improperly functioning meters within one of the districts.

⁶ The Town water rate structure includes a \$40 flat fee for usage up to 15,000 gallons during one billing quarter.

⁷ Our testing compared gallons per meter readings to gallons used to calculate quarterly bills.

Since the Clerk is responsible for all aspects such as billing, collecting, adjusting bills and enforcing unpaid accounts, she could collect money, not deposit it, and it would not be detected.

Recommendations

3. Town officials should properly reconcile the amount of water processed with the amount billed and identify and remedy potential causes of significant discrepancies in a timely manner.
4. The Board should adopt performance measures to provide a mechanism for oversight and a long-term capital plan to address the acquisition and replacement of vital capital assets and infrastructure.
5. The Board should ensure that all water usage is billed correctly.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

THE TOWN OF NEWFIELD, NY
RESPONSE TO THE NEW YORK STATE COMPTROLLER'S AUDIT OF
JANUARY 1, 2011 TO JUNE 11, 2012

BACKGROUND

The Town of Newfield Supervisor and the Board knew that the 2011 accounting records were in disarray and agreed to invite the New York State Office of the Comptroller to audit the Town's financial records. The Supervisor and the Board also recognized that the disarray was not exclusive to fiscal 2011, but likely had antecedents in financial accounting practices that predated the tenure of the current Supervisor and Board.

The Town experienced a turnover in bookkeeping services over a period of six years of which two bookkeepers were not competent in municipal accounting and or the dedicated software required. Compounding this situation, the Town changed accounting software four times during that period. A greater complication was discovered in early July 2011. Upon being hired in January 2010 and unbeknownst to the Town, the last bookkeeper did not use the municipal accounting software but had been using [REDACTED] spreadsheet software instead. At the beginning of January 2011, and at the request of the bookkeeper, the Town agreed to switch from the municipal accounting program it thought was being used to [REDACTED]. However, the Town discovered that the bookkeeper was both unfamiliar with and unable correctly to use [REDACTED] accounting software.

FINANCIAL RESPONSIBILITIES

With the exception cited below, we agree with the findings in the first section of the Report - Financial Responsibilities - for the stated review period of January 1, 2011 to June 11, 2012. We discovered these findings when the last bookkeeper quit without notice on June 23, 2011. For reasons noted above, the bookkeepers had not maintained the Town's financial records according to Generally Accepted Accounting Principles.

We disagree, however, with the finding in the Executive Summary that "The Board did not **require** (emphasis added) the Supervisor to meet the fundamental financial responsibilities of his office". The Board members did request financial reports beginning in January 2011 and expressed concern at not receiving them. The Supervisor told the Board that there were no monthly financial reports of any accuracy to produce during the switch to [REDACTED]. This remained the case until the Board received a financial report for August 2011 (with the exception of a first quarter 2011 report provided by the bookkeeper in April 2011). There was no lack of "requiring" on the part of the Board and no lack of effort and understanding for the need to supply the Board with monthly financial reports on the part of the Supervisor.

With the sudden departure of the last bookkeeper, the Supervisor began to manage what became a months-long crisis. The Supervisor notified Board members immediately and regularly kept them apprised of developments. He sought specialized bookkeepers and accountants on a part-time basis to solve the crisis while he stepped in to lead the Town's day-to-day financial operations. He secured the

See Note 1 Page 20

Town's Internet Banking protocols and within days hired a temporary payroll clerk. Within a week he identified and hired a forensic accountant to analyze the situation and brought in the Town's independent auditor to conduct a preliminary review which included theft. As a result of these efforts and investigation, the Supervisor, the Town Clerk and the financial consultants, having uncovered the nature of the last bookkeeper's incompetency, worked to resolve the Town's financial problems.

By the time the Comptroller's Office had been sent the request for an Audit in December 2011, the Town's 2011 financial accounts were reconstructed and balanced to the bank. Financial reports were given to the Board in time to begin the 2012 budget process. In October, the reconstructed financial records were ready to be entered into [REDACTED] municipal accounting by a temporary bookkeeper and a new permanent bookkeeper, hired in November. They worked together through February 2012.

See
Note 2
Page 20

As evidence, the Town is able to respond to the Examiner's **Recommendations** in the Financial Responsibilities Section as follows:

1. The Board should ensure the Supervisor is meeting the fundamental responsibilities of the position by:

a. Ensuring moneys are disbursed based only on Board approved claims.

RESPONSE: Beginning in 2010 the Supervisor initiated the regular practice of formal monthly Board audits to approve all claims prior to payment a practice which had not been previously in place. The method has been and will continue to be improved based on the Examiner's suggestions during their five-month stay at Town Hall and will be cited in the Town's Corrective Action Plan.

See
Note 3
Page 20

b. Requiring accounting records to be kept in an accurate and complete manner.

RESPONSE: Beginning in 2010 the Supervisor initiated the regular practice of a formal Board review of monthly financial statements a practice which previously had not been in place. These reviews familiarized the Board with the Town's finances and adequately alerted the Members to their oversight responsibilities. The Town's new bookkeeper is knowledgeable with municipal accounting and has become adept with [REDACTED] software. She has been providing the Town Board with monthly financial statements since Spring 2012.

See
Note 4
Page 20

c. Requiring that cash per the accounting records is periodically reconciled to cash per the bank statement.

RESPONSE: Done. In addition to monthly financial reports, the Town's bookkeeper provides the Board with a monthly report of bank reconciliations of all cash accounts between the bank and Town accounting records which, as of this writing, will also include a listing of outstanding checks.

See
Note 5
Page 20

d. Requiring timely and accurate monthly and annual financial reports.

RESPONSE: Done. See item "b" above. The Town's bookkeeper has the December accounting records ready for audit and the Town's independent auditors will begin the 2012 audit in April 2013. We expect a draft to be available by July 2013.

e. Acting on deficiencies reported on by the external auditors.

RESPONSE: Beginning in 2010, the Supervisor instituted a formal review by the Town Board of the annual independent audit with the Auditor in attendance, a practice which had not been previously in place. The Supervisor and the Board have made progress in many areas and are actively addressing other noted deficiencies stated in concert with the OSC Examiner findings.

f. Ensuring that the duties performed by the Clerk and the bookkeeper are adequately segregated or that mitigating controls are put in place if segregation of duties is not feasible.

RESPONSE: Duly noted. One of the Supervisor and the Board's action items for 2013, to be cited in the Corrective Action Plan, is to record the duties and write procedures for each department across Town government. This should help in ensuring adequate internal controls over segregation of duties with respect to receipts and deposits. See also item a) and b) above.

2. The Board should ensure that all payments are sequentially numbered, supported by and (sic) audited claim form, and listed on an abstract of audited claims.

RESPONSE: The Supervisor and the Board have been doing this. See also item a) above.

WATER OPERATIONS

We agree with the findings of this Section. Had the Supervisor and Board been alerted to the actual problem of the water meters in Water District One as the cause for the discrepancies in billing, we would have acted.

Recommendations

3. Town Officials should properly reconcile the amount of water processed with the amount billed and identify and remedy potential causes of significant discrepancies in a timely manner.

RESPONSE: The Supervisor and the Board have actively addressed the problem and are in the midst of executing a bond for the water meter replacements with the clear intent that the Clerk's Office can bill correctly for water processed against water use recorded by each individual meter.

4. The Board should adopt performance measures to provide a mechanism for oversight and long term capital plan to address the acquisition and replacement of vital capital assets and infrastructure.

RESPONSE: The Board and the Supervisor have had conversations on the oversight of the Water Districts. These as well as a consideration of a long-term capital review will be cited in the Corrective Action Plan.

5. The Board should ensure that all water usage is billed correctly.

RESPONSE: The Board and the Supervisor will ensure that billing is correct through regular audits the method for which will be cited in the Corrective Action Plan.

CLOSING

The Supervisor and Board Members have come through a seriously disruptive and challenging period in Town government. The investigative work done by the Examiners and the discoveries we've made with the knowledge we've gained have provided us a greater understanding of what it means to conduct solid, informed, and transparent management of our finances and assets going forward. We've worked together to achieve this outcome and have begun to establish a legacy for future Supervisors and Board Members to follow.

Submitted April 5, 2013 by


Richard G. Driscoll, Supervisor

Affirmed by

Joanne James
Board Member

Christine Laughlin
Board Member

Roy Trask
Board Member

Casey Powers
Board Member

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

The Board, in its service to the Town's residents, should expect to have accurate financial information monthly. Allowing a more than an eight-month period to transition to new accounting software puts the Town's fiscal health at risk and significantly increases the risk of loss due to wrongdoing.

Note 2

The Town's cash records were not accurately reconciled with the amounts on deposit in the Town's bank accounts. Instead, as noted in our report, attempts were made to reconcile these accounts by making large adjustments to the records without any supported reasoning for those adjustments. Such adjustments only serve to conceal errors or theft.

Note 3

The Town Board's audit and approval of claims presented to them does not ensure that all disbursements are fully supported by Board-approved claims. Disbursements can be made without Board approval and detection.

Note 4

The current bookkeeper told us she was not able to reconcile the cash accounts. Thus, the accuracy of any financial information is questionable.

Note 5

Since the cash accounts were not reconciled at any time during our audit fieldwork and any attempts resulted in large adjustments to the cash accounts, the Board should ensure the reconciliations are accurate and any adjustments made to facilitate these reconciliations are fully supported.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Town officials and employees, reviewed policies, records and reports of the Town, and examined pertinent documents for the period January 1, 2011, through June 11, 2012.

- We interviewed the Supervisor, three of the four Board members, and other staff to gain an understanding of available accounting records and controls relating to our audit objective.
- We reviewed OSC databases to determine if annual update documents were filed in accordance with statutory deadlines.
- We reviewed the bank reconciliations for December 2011 and May 2012 to determine if the bank accounts were reconciled properly.
- We reviewed 10 trial balance accounts for May 2012, and traced them to their corresponding accounting records to determine if the trial balance reports were recorded accurately.
- We selected 20 credit journal entries to cash to determine if they were appropriate and supported properly.
- We selected seven key employees, including the Supervisor, and compared their 2011 salaries to Board minutes or approved budgets to determine if the annual salaries paid were correct.
- We judgmentally selected 10 hourly employees in May 2012 to determine that the hours worked and hourly rates were approved and supported.
- We traced 100 percent of payments to the Supervisor and other key officials to determine if they were for appropriate Town expenditures.
- We randomly selected four months in the audit period and selected 61 disbursements to vendors to ensure they were appropriate Town expenditures.
- We randomly selected four months in the audit period and selected 100 percent of the 190 electronic bank transfers occurring in those months from the Town's operating account and 100 percent of electronic bank transfers from the Town's nine money market accounts to determine if the transfers were between Town accounts or to legitimate vendors for Town expenses.
- We interviewed the Supervisor, Water Supervisor, Board members, and other staff to gain an understanding of controls over the water districts.
- We tested 100 percent of recorded receipts for water billings to ensure they were supported properly and deposited timely.

- We tested 100 percent of adjustments to water bills to determine if they were supported and approved.
- We selected all 14 unpaid water bills from 2011 to determine if the unpaid balances were relieved. We sent water account confirmation letters to 10 customers to determine if the amounts due in the water system were equal to what the customers' records show as due.
- We reviewed one billing cycle for each water district to determine if late fees were assessed and billed accurately.
- We compared 100 percent of water billings in both water districts for our audit period to determine if amounts were accurately recorded in the accounting records.
- We selected seven key Town employees and officials to determine if their water bills were properly calculated.
- We reviewed quarterly meter readings generated by the water billing software to determine if the water bill was being calculated accurately.
- We compared the amount of water produced from reports the Town submits to the New York State Department of Environmental Conservation to the amount of water billed in the water districts during 2011. We used this comparison to determine if the water loss within the the municipal system was acceptable based on industry standards established by the EPA.
- We performed calculations to determine the per gallon cost of water.

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 D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313