



Town of Rensselaerville Financial Operations

Report of Examination

Period Covered:

January 1, 2011 — April 30, 2012

2012M-168



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 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 Rensselaerville, entitled 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 Rensselaerville (Town) is located in Albany County and has a population of about 1,800. The Town provides various services to its residents, including street maintenance, parks and recreation programs, water, sewer, and general government support. The Town's operating funds' appropriations for the 2012 fiscal year are approximately \$2.1 million, funded primarily with real property taxes, sales tax, user charges and State aid. Most of the expenditures incurred in providing services are accounted for in the general, highway, water and sewer funds.

The Town Board (Board) is the legislative body responsible for managing Town operations. The Town Supervisor (Supervisor), who is a member of the Board, serves as the Town's chief executive officer and chief fiscal officer. As chief fiscal officer, the Supervisor is responsible for the receipt, disbursement and custody of Town moneys.

Scope and Objective

The objective of our audit was to review the Town's financial operations for the period January 1, 2011 to April 30, 2012. Our audit addressed the following related questions:

- Does the Supervisor maintain complete and accurate accounting records and reports?
- Does the Town's use of online banking ensure the security of the Town's money?

Audit Results

The Town's accounting records are in poor condition and do not provide an accurate portrait of its financial condition. In fact, the Town's general fund was overstated by a total of \$247,036 in fiscal year 2011, which was 30 percent of the budgeted revenues. This overstatement occurred because the Town did not properly account for property and sales tax revenue. The Supervisor did not maintain complete, accurate and up-to-date accounting records and has not filed the annual update document with the Office of the State Comptroller for 2010 and 2011. As a result, the Board could not properly monitor and manage the Town's operations. Finally, Town officials have not performed bank reconciliations for 2011 or 2012. The failure to perform bank reconciliations increases the risk that errors or irregularities will not be detected and corrected.

We determined that the Town's use of online banking did not ensure the security of Town funds. In fact, two former employees, who left Town employment in December 2011 and January 2012, still have Town online banking user accounts, though neither have any privileges to perform online banking

functions. We selected 25 online transfers between bank accounts under the Supervisor's control totaling \$518,713¹ and found one or more discrepancies with all transfers. In addition, the Supervisor and bookkeeper have access to the online banking modules for all Town Clerk accounts (sewer rent, water rent, Tax Collector, and Town Clerk accounts); they do not require access to these accounts to perform their normal job duties. As a result, the Town has a significant risk that unauthorized and inappropriate online banking transactions could occur.

Comments of Town 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 agreed with our recommendations and indicated that they have taken or plan to initiate corrective action.

¹ Refer to Appendix B, Audit Methodology and Standards for additional information on sample selection.

Introduction

Background

The Town of Rensselaerville (Town) is located in Albany County and has a population of about 1,800. The Town provides various services to its residents, including street maintenance, parks and recreation programs, water, sewer, and general government support. The Town's operating funds' appropriations for the 2012 fiscal year are approximately \$2.1 million, funded primarily with real property taxes, sales tax, user charges and State aid. Most of the expenditures incurred in providing these services are accounted for in the general, highway, water and sewer funds.

The Town Board (Board) is the legislative body responsible for managing Town operations. The Town Supervisor (Supervisor), who is a member of the Board, serves as the Town's chief executive officer and chief fiscal officer. As chief fiscal officer, the Supervisor is responsible for the receipt, disbursement and custody of Town moneys. Although the Board is primarily responsible for the effectiveness and proper functioning of the Town's internal controls, the Supervisor and department heads also share the responsibility for ensuring that internal controls are adequate and working properly.

In January 2012, the former Supervisor and Deputy Supervisor resigned. The Board appointed the current Supervisor in February 2012.

Objective

The objective of our audit was to review the Town's financial operations. Our audit addressed the following related questions:

- Does the Supervisor maintain complete and accurate accounting records and reports?
- Does the Town's use of online banking ensure the security of the Town's money?

Scope and Methodology

We examined the Town's financial operations for the period January 1, 2011 through April 30, 2012.

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 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 agreed with our recommendations and indicated that they have taken or plan 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 Town Clerk's office.

Accounting Records and Reports

The Board is responsible for the fiscal management and oversight of the Town to ensure that the Town's assets are properly safeguarded, recorded, and accounted for. The Board also has the authority and responsibility to adopt realistic, structurally balanced budgets and to monitor the budget continually. The Town's financial records must be complete, accurate and up-to-date to be useful for managing Town operations. The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions, including maintaining 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 documentation of differences between cash balances per the Town's records and the bank statements.

The Town's accounting records are in poor condition and do not provide an accurate portrait of its financial condition. In fact, the Town's general fund was overstated by a total of \$247,036 in fiscal year 2011, which was 30 percent of the budgeted revenues. This overstatement occurred because the Town did not properly account for property and sales tax revenue. The Supervisor did not maintain complete, accurate and up-to-date accounting records and has not filed the AUD for 2010 and 2011. As a result, the Board could not properly monitor and manage the Town's operations. Finally, Town officials have not performed bank reconciliations for 2011 or 2012. The failure to perform bank reconciliations increases the risk that errors or irregularities will not be detected and corrected.

Accounting Records

Town Law requires the Supervisor, as chief fiscal officer, to keep a complete and accurate account of the receipt and disbursement of all moneys. General ledgers, cash receipt and disbursement journals, and subsidiary revenue and appropriation ledgers should be maintained in a complete, accurate, and timely manner. The general ledger is a detailed accounting for assets, liabilities and equity (fund balance) accounts, as well as revenue, expenditure and budgetary control accounts, that helps substantiate the Town's financial condition at a given point in time. During 2011, the Town switched its accounting system from one system to another. Town officials stated that the activity from the old system should have been added to the new system's activity to create an accurate accounting record for 2011.

The Town's accounting records were in poor condition and did not provide an accurate portrait of the Town's financial activity. The Town

did not account for all highway operations in the prescribed fund and did not properly account for property and sales tax revenue, and interfund loan activity. Without accurate records, the Board does not have reliable information with which to base its financial decisions.

Improper Accounting Entries — To ensure the accuracy of records, transactions should be recorded in the proper fund in the accounting system and should not be recorded multiple times. Town officials did not record financial activity in the correct accounts; therefore, the accounting records could not be relied upon for accurate information. For example, Town officials recorded an entry for the 2011 real property tax revenue for the Town's ambulance and fire districts in the general fund and also in the corresponding ambulance and fire district funds. This resulted in an overstatement of general fund assets and revenues of \$168,900.

In addition, an accounting entry for \$78,136 of general fund sales tax revenue was made in both the old accounting system and the new accounting system. When Town officials combined the accounting system records, this transaction was double-counted, resulting in assets and revenues being overstated by \$78,136.

The total general fund revenue overstatement of \$247,036 represents 30 percent of the 2011 budgeted general fund revenues of \$835,145. This significant overstatement does not provide the Board and taxpayers with an accurate account of the Town's financial condition.

Improper Fund — OSC prescribes a Uniform System of Accounts, which provides a standard chart of accounts and fund structure that is the basis for the Town's accounting records. During the transition of maintaining records from the old to the current accounting systems, Town officials created a new fund, entitled the road machinery fund, in the current accounting system and used it during the audit period. Town officials are using this fund to account for vehicle maintenance, repairs and rentals. The Uniform System of Accounts does not provide for a Town to utilize a road machinery fund; this fund is utilized only by counties. Because the Town has created this fund in addition to its highway fund, the Town is not accurately accounting for all of its highway operations in the highway fund, which further reduces the accuracy and reliability of the accounting records.

Specifically, in 2011, the Town's accounting records for the road machinery fund included estimated revenues and appropriations totaling \$110,000; however, the Town's adopted budget did not include revenues and appropriations for this fund. During the year, there was minimal activity recorded in the fund. Expenditures totaled only \$3,400, which were funded by an interfund transfer from the

highway fund. Town officials told us that the former Supervisor established this fund but could not explain why she created the fund or why they had recorded activity in this manner. Therefore, Town officials do not have a clear understanding of the Town's creation and use of this fund.

Interfund Transactions — Interfund loans are transactions between funds in which the intent is to repay the money in the future. Corresponding receivables and payable balances should be recorded on the balance sheets of the impacted funds. The sum of the interfund receivables and payables should agree. As of December 31, 2011, the sum of the interfund receivables totaled \$535,251 and the sum of the interfund payables totaled \$446,681, resulting in a difference of \$88,570.

Town officials indicated that poor accounting entries made in the past resulted in the discrepancies. They told us that the former Supervisor did not maintain support for the interfund loans made during her tenure. Because of the poor condition of the Town's accounting records, Town officials could not determine when these loans were made and the reasons they were not paid back. When interfund transfer balances do not agree, the Town does not have an accurate record of interfund loans and cannot be sure that all loans are being repaid.

Incomplete and inaccurate records limit the Board's ability to make informed decisions related to the Town's operations. Furthermore, when transactions are not properly accounted for, the Town's financial activity can be misrepresented. The lack of accurate and complete records makes it difficult for the Board to monitor the Town's financial condition.

Annual Update Document

The AUD is an important document that allows management and the general public to assess the Town's financial operations and financial condition. The Supervisor is required to file the AUD with OSC and the Clerk within 60 days following the close of the fiscal year with the option of an additional 60-day extension, if requested. As of June 2012, the Town had yet to submit the AUD for the 2010 and 2011 fiscal years. The bookkeeper stated that, prior to submitting the Town's AUDs, Town officials must correct certain issues, including imbalanced accounts within various Town funds and the former Supervisor's incorrect entries in the accounting system. Town officials' failure to file the AUDs in a timely manner denies the Board and public with necessary information for monitoring the Town's fiscal affairs.

Bank Reconciliations

The reconciliation of bank account balances to general ledger cash balances is an essential control activity. This process provides for the timely identification and documentation of differences between the Town's book balances and bank balances. It is important that bank reconciliations be independently reviewed on a regular basis to ensure that they are prepared in a proper manner. An independent review of bank reconciliations provides a unique opportunity for an internal verification of cash receipt and disbursement transactions.

Town officials have not performed bank reconciliations for 2011 or 2012. The current Supervisor stated that the former Supervisor did not complete the 2011 bank reconciliations so she did not have a cash balance for the end of 2011 to use as a beginning balance for 2012. However, the current Supervisor did not reconcile the account to determine the beginning cash balance for 2012 so that she could complete regular bank reconciliations. Without accurate and current bank reconciliations performed and reviewed by an individual independent of the cash custody function, Town officials do not have a reasonable level of assurance that the accounting records are correct or that all moneys are accounted for properly.

Recommendations

1. The Supervisor should ensure that accounting records accurately and completely reflect the Town's financial activity.
2. The Supervisor should file the Town's AUD with OSC and the Clerk within 60 days after the close of the fiscal year, or 120 days after the close the fiscal year if an extension is granted.
3. The Supervisor should perform complete and accurate monthly bank reconciliations and ensure that any disclosed differences are promptly identified and resolved.

Online Banking

Online banking allows the convenience of moving money between various Town bank accounts and to external accounts, reviewing transaction histories, reconciling accounts in real time, and monitoring cash balances. Towns are allowed to disburse or transfer funds in their custody by means of electronic transfer. To ensure that Town funds are secure, it is important that the Town grants access to the online banking system to users based on their official job duties and responsibilities. Town officials should document the employees that are authorized to perform online banking, record online banking transactions, and make electronic transfers. Management also should preauthorize transfers and document the purpose, source, destination, and amount of each transfer.

We determined that the Town's use of online banking did not ensure the security of Town funds. In fact, two former employees, who left Town employment in December 2011 and January 2012, still have Town online banking user accounts, though neither have any privileges to perform online banking functions. We selected 25 online transfers between bank accounts under the Supervisor's control totaling \$518,713² and found that they all lacked documentation of which official made the transfer and that none had the Supervisor's prior approval.

In addition, the Supervisor and bookkeeper have access to the online banking modules for all Town Clerk accounts (sewer rent, water rent, Tax Collector, and Town Clerk accounts); they do not require access to these accounts to perform their normal job duties. We determined that they did not make transfers from any of the Town Clerk's accounts during our audit period.

The former employees still had online banking user accounts, and the Supervisor and bookkeeper had excessive online banking privileges because the Board failed to establish policies and procedures for online banking. Without comprehensive policies and procedures, there were no guidelines delineating online banking responsibilities and assigning access rights to accounts. As a result, the Town has a significant risk that unauthorized and inappropriate online banking transactions could occur.

² Refer to Appendix B, Audit Methodology and Standards for additional information on sample selection.

Recommendation

4. The Board should establish a comprehensive online banking policy that adequately addresses all online banking activities and functions, including who has the ability to perform transfers and what accounts can be accessed through online banking.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Town Clerk/Tax Collector
Kathleen A. Hallenbeck

Councilmen
Robert Bolte
Marion Cooke
John Kudlack
Margaret Sedlmeir

Building Inspector/CEO
Mark Overbaugh

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Town Supervisor
Valerie Lounsbury


Attorney to the Town
Tabner, Ryan, & Keniry, LLP

Superintendent of Highways
Randy Bates

Assessors
Donna Kropp
Michael Weber
Richard Tollner

Town Justices
Timothy Miller
Gregory Bischoff

December 5, 2012


NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear ,

Having reviewed the preliminary draft report of the audit conducted by your office, for the period Jan. 1, 2011 to April 30, 2012, I am submitting to you our responses.

Audit Results: The annual update report has been filed for the year 2010 since the auditor was here. Our accounting firm is still working on the 2011 and we are making every effort to complete the 2011 report as soon as possible. We hope to be able to complete the 2011 and also complete the 2012 report in a more timely fashion.

Accounting Records: We have set up new procedures to ensure better accounting records. We have also set up better checks and balances for our accounting system and are working with our accountants to be sure that our accounting procedures are accurate. Many of the inaccurate entries that were made previously were a result of two people attempting to do the same job which occurred when the Town was setting up the new accounting system and a lack of communication between the two people making the entries.

Bank Reconciliation: Bank reconciliations have been completed for 2011 and are current for 2012. Verifications have been made and we have been working with our accountant to make any corrections needed.

Online Banking: The online banking issues have been addressed. The previous employees no longer have online banking user accounts. We have changed access to accounts so that only the accounts required for your position are accessible to you, such as: The Town Clerk is the only clerk who has access to the sewer rent, water rent, Tax Collector, and Town Clerk accounts. Transfer procedures have been tightened and are reviewed before and after they are made.

The Town of Rensselaerville is aware that there has been a problem with the accounting practices within the Town for the last couple of years but we are, with the help of our accounting firm, working diligently to correct the issues and hope to have this accomplished in the very near future.

Sincerely,

Valerie Lounsbury
Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Town's financial operations. 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: control environment, financial condition, budgeting, information technology, accounting records and reports, cash management, cash receipts and disbursements, purchasing, claims processing, payroll, billed receivables, Justice Court, and real property taxes. During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents, 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 objectives and scope by selecting for audit those areas most at risk. We selected accounting records and online banking for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We inspected the printed general ledger, bank reconciliations, and selected financial transactions to evaluate the condition of the Town's accounting records.
- We interviewed Town officials and utilized our First NY Database to determine if the Town filed its AUD for 2010 and 2011.
- We interviewed Town officials responsible for online banking to determine the existing internal controls over online banking.
- We judgmentally selected 25 online banking transfers from the population of 541 transfers during the audit period for additional testing. We selected five inter-bank transfers from the general fund, one Bayard Park transfer, one general disbursement transfer, one water fund transfer, four highway fund transfers, two transfers each from the sewer district and lighting district accounts, and nine external transfers.

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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