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January 13, 2012

Mr. Daniel Dwyer, Mayor  
Members of the City Council  
City of Rensselaer  
62 Washington Street  
Rensselaer, NY 12144

Report Number: 2008M-239-F

Dear Mayor Dwyer and Members of the City Council:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage City officials to reduce costs, improve service delivery and account for and protect their City's assets. In accordance with these objectives, we conducted four audits of the City of Rensselaer (City) to assess its financial operations. As a result of our audits, we issued four reports<sup>1</sup> identifying certain conditions and opportunities for City management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the City on August 16, 2011 to review its progress in implementing our recommendations. Our follow-up review was limited to interviews with City personnel and inspection of certain documents related to the issues identified in our reports. Based on our limited procedures, it appears that the City has made extremely limited progress in implementing our recommendations. Of the 34 audit recommendations, six recommendations were implemented, nine recommendations were partially implemented and 19 recommendations were not implemented. We considered the corrective action plans submitted by the City for the Cash Management, Purchasing and Payments and Cash Receipts audits; however, the City did not prepare and submit a corrective action plan for the Payroll and Personal Services audit.

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<sup>1</sup> 2008M-239, Internal Controls Over Purchasing and Payments, dated April 2009; 2008M-246, Internal Controls Over Cash Management, dated April 2009; 2009M-15, Internal Controls Over Payroll and Personal Services, dated June 2009; and 2009M-188, Internal Controls Over Cash Receipts, dated February 2010.

## **2008M-239 Internal Controls Over Purchasing and Payments**

### **Recommendation 1 – Annual Review and Update of Procurement Policy**

The Council should review and update the City’s procurement policy annually and ensure that its provisions are in conformance with applicable sections of the General Municipal Law.

Status of Corrective Action: Not Implemented

Observations/Findings: Although the Council reviewed and updated the City’s procurement policy in January 2010, the procurement policy does not conform with General Municipal Law (GML). While the Council increased the competitive bidding thresholds in conformance with GML,<sup>2</sup> it did not increase the thresholds for obtaining competitive quotes.<sup>3</sup> As a result, the City’s procurement policy does not contain provisions requiring competitive quotes for purchases between \$7,000 and \$10,000 or public work contracts between \$10,000 and \$35,000. Therefore, the City’s policy is not in conformance with GML.

### **Recommendation 2 – Amounts Under Bid Thresholds**

The Council should amend the procurement policy to address purchase and public work contracts greater than \$7,000 and \$10,000, respectively, which are below the bid thresholds.

Status of Corrective Action: Not Implemented

Observations/Findings: The City’s procurement policy does not contain any requirements for purchases between \$7,000 and \$10,000 or public work contracts between \$10,000 and \$35,000 to be procured competitively.

### **Recommendation 3 – Purchasing Agent Duties and Responsibilities**

The Council should ensure that the purchasing agent performs his duties and responsibilities as prescribed by the Charter.

Status of Corrective Action: Not Implemented

Observations/Findings: We interviewed City officials and found that the Council did not take action to implement this recommendation and, in fact, has not altered its purchasing practices at all since the audit occurred. As our audit found, the City currently has a decentralized purchasing process which allows individual departments to make purchases and receive goods and services without the purchasing agent’s review and approval. This

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<sup>2</sup> The City’s procurement policy requires all purchase contracts in excess of \$10,000 and all public works contracts in excess of \$35,000 to be publicly bid.

<sup>3</sup> GML requires every local government to adopt its own policy and procedures for procurement of goods and services not required by law to be competitively bid.

process is in direct conflict with the City's Charter, which provides for a centralized purchasing system.

#### **Recommendation 4 – Timeliness of the Purchasing Process**

City officials should work on improving the timeliness of the purchasing process to ensure that the City can take advantage of any available vendor discounts and avoid incurring any late fees.

##### Status of Corrective Action: Partially Implemented

Observations/Findings: The Council President told us that the Council now approves claims for payment twice each month. However, we found that, while the timeliness of this one portion of the purchasing process may have improved, City officials did not alter any other portions of the purchasing process to implement this recommendation. We selected a random sample<sup>4</sup> of five claims totaling \$13,337 to determine whether they were paid in a timely manner. We found that three claims totaling \$826 were paid four, six and 76 days after they were due. The claim that was paid 76 days after it was due was for a purchase made using a store credit card. The City allowed one billing cycle to elapse before making the payment. The purchase appeared on the bill attached to the claim under “previously billed items.”

#### **Recommendation 5 – Competitive Bidding**

City officials should obtain competitive bids for purchase contracts and public works contracts in compliance with provisions in the Council adopted policy and/or the GML.

##### Status of Corrective Action: Partially Implemented

Observations/Findings: We selected a non-biased judgmental sample of five purchases totaling \$468,970 which were subject to competitive bidding under GML. All five of the purchases were obtained competitively. However, one purchase for diesel fuel totaling \$52,047, which was for all diesel fuel purchased in the 2010-11 fiscal year, contained documentation stating that it was purchased on State contract. When we informed officials that the vendor was not awarded the State contract, they indicated it was possible the purchase was made on County contract, but could not provide us with documentation of the County contract. Ultimately, we contacted Rensselaer County and found that the vendor was awarded the County contract. Although the City's procurement policy requires City officials to document every action taken in connection with a procurement, City officials failed to clearly document that the purchase was made off of a County contract. Furthermore, City officials displayed a lack of knowledge and oversight over the procurement process because they were not able to provide clear explanations on how they procured diesel fuel. By failing to clearly document and explore all procurement options for diesel fuel, the City paid more than necessary. In fact, if City officials actually had made these purchases from the vendor who had been awarded the State contract, the City could have saved nearly \$3,000.

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<sup>4</sup> We numbered all claims for July 2011 and used a random number generator to select five purchases.

## **Recommendation 6 – Competitive Quotations**

City officials should comply with the City's procurement policy by obtaining the required number and type of quotations for those purchases that fall below the competitive bidding thresholds. Documentation should be retained to support all quotes received.

Status of Corrective Action: Not Implemented

Observations/Findings: We selected a random sample of five claims totaling \$9,676 paid in the most recently completed month, July 2011. City officials should have obtained two verbal quotes for each of the five purchases, according to the City's procurement policy. We found that City officials did not obtain and document competitive quotations for any of the purchases. City officials indicated that they do not document the quotes that they obtain.

## **Recommendation 7 – Code of Ethics**

The Council should enforce the provisions of the City's Code of Ethics to ensure that officials and employees are not violating the Code by conducting business with the City.

Status of Corrective Action: Partially Implemented

Observations/Findings: The City distributed a copy of its Code of Ethics to all existing and newly-hired employees and required those employees to read and sign it. However, the City's Code of Ethics form does not explicitly state that by signing the form, the employee acknowledges and agrees to adhere to the Code of Ethics. We selected a random sample of five current employees and found that one employee did not have a signed Code of Ethics on file.

## **Recommendation 8 – Payments in Violation of the Code of Ethics**

The Mayor should not authorize contracts and approve vouchers as a Department Head for payments that violate the City's Code of Ethics. Additionally, the Audit Committee should not sign and approve vouchers for payments that violate the City's Code of Ethics.

Status of Corrective Action: Not Implemented

Observations/Findings: We interviewed the Council President and determined that City officials have not taken actions to implement this recommendation. Although the City has required its employees to sign the Code of Ethics, these actions are not sufficient to implement this recommendation. During our limited review, we did not find any payments that violated the City's code of ethics.

## **Recommendation 9 – Property Control Manager**

The Council should designate a property control manager to be responsible for tracking vehicles and maintaining an accurate vehicle listing.

Status of Corrective Action: Not Implemented

Observations/Findings: According to the Council President, each department head has been designated property control manager for the vehicles in their respective departments. We found this designation was not done formally by Council resolution. Further, only one department head maintained an adequate vehicle inventory. As our audit stated, the intended benefit of this recommendation was to make one person responsible for tracking all vehicles. By making each department head responsible for maintaining individual vehicle listings, the City has decentralized this function and did not implement our recommendation. As a result, the City does not have a reliable inventory of its vehicles.

**Recommendation 10 – Vehicle Disposal and Insurance**

The Council should establish policies and procedures for the disposal of vehicles to ensure that vehicles are properly disposed of. The policy should include procedures for informing the property control manager of disposals in a timely manner to ensure that the City only pays insurance for vehicles it owns.

Status of Corrective Action: Not Implemented

Observations/Findings: The Council President told us that the City has not developed written policies or procedures for the disposal of vehicles or for informing the property control manager when vehicles have been disposed of. The City has informal procedures in place, which include holding department heads responsible for notifying the City's insurance agent of vehicle disposals. We selected a random sample of four currently insured vehicles from the City's insurance policy and found that one of the four vehicles was sold in November 2009, but has been insured since. We also identified four vehicles which were recently removed from the City's insurance policy and interviewed officials to determine how long the vehicles have been out of use. Because City officials do not maintain adequate, complete inventory records, they could not provide us with documentation to determine when the City discontinued use of those vehicles. Therefore, we could not determine whether the vehicles were removed from the City's insurance policy in a timely manner.

**Recommendation 11 – Audit Committee**

The Council should ensure that the audit committee is properly constituted in accordance with the City Charter.

Status of Corrective Action: Not Implemented

Observations/Findings: The Charter requires the City Clerk, Council President, Mayor and two aldermen appointed by the Mayor to serve on the auditing committee. However, we found that the current auditing committee is composed of five aldermen and the Council President. Further, the Council has not amended the Charter to allow the auditing committee to be comprised of the aforementioned members.

**Recommendation 12 – Audit of Claims**

The Council should ensure that all claims are supported, reviewed and approved by the audit committee prior to payment and that the audit committee's audit and approval of claims is properly documented.

Status of Corrective Action: Partially Implemented

Observations/Findings: We selected a random sample of five claims, totaling \$13,337, paid in July 2011,<sup>5</sup> and reviewed the claim documentation to determine whether the claims were properly supported, reviewed and approved. We found exceptions with three claims totaling \$12,769. For example:

- One claim for \$8,427 for emergency repair work was reviewed and approved by the auditing committee but was not adequately supported. The claim documentation included a purchase order and voucher which charged the claim to one appropriation code. However on the voucher, the appropriation code was crossed off by an unknown individual and changed without explanation.
- A disability insurance claim for \$4,085 did not contain departmental approval for the purchase.

**Recommendation 13 – Tax Refunds**

City officials should submit applicable documentation to the NYS Department of Taxation and Finance to receive refunds of taxes of eligible fuel purchases.

Status of Corrective Action: Fully Implemented

Observations/Findings: We reviewed applicable tax refund information and found that the Treasurer has filed for refunds of all eligible fuel purchases.

**Recommendation 14 – 1099 Reporting**

City officials should ensure that all vendors that are subject to the issuance of a 1099 informational form are properly identified and reported as required.

Status of Corrective Action: Not Implemented

Observations/Findings: Our audit identified 10 vendors who should have received a 1099 informational form from the City, but did not. We used the same sample of 10 vendors and obtained payment records from the Treasurer to determine if they were required to receive a 1099 in 2010 from the City. Of the 10 vendors, we found that five should have received a 1099 in 2010. Two of those five vendors were paid a total of \$32,810 by the City, and the City did not prepare and file a 1099 for either of the vendors. Our 2009 audit found that City officials did not properly document in the computerized system that

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<sup>5</sup> We numbered all claims for July 2011 and used a random number generator to select five purchases in July 2011, which was the most recently completed month while we were on site conducting the follow-up.

these two vendors required a 1099 form. During the follow up, we found that City officials had not corrected the computerized records for these vendors.

## **2008M-246 Internal Controls Over Cash Management**

### **Recommendation 1 – Treasurer’s Financial Reports**

The President of the Council should ensure that the Council receives, reviews and acts upon financial reports from the Treasurer, including summaries of previous months’ investment activities, cash flow projections and bank reconciliations that are complete, accurate and timely.

Status of Corrective Action: Not Implemented

Observations/Findings: The Council President has not taken action to ensure such reports are prepared and filed. We interviewed the Treasurer and Council President and reviewed the most recent Treasurer’s report which was provided to the Council in April 2011; it contained information for the period August 2010 to February 2011. The report did not contain summaries of the previous months’ investment activities, cash flow projections or bank reconciliations.

### **Recommendation 2 – Custody of Bank Accounts**

The Treasurer should maintain custody of all City-owned bank accounts.

Status of Corrective Action: Not Implemented

Observations/Findings: While the City now requires all bank statements and reconciliations to be prepared and filed with the Treasurer, we interviewed the Treasurer and an official from the City’s financial institution and found that the Treasurer is not the custodian of all City monies as required by the Charter. The Planning Department, Police Department, and Mayor each continue to maintain custody of bank accounts.

### **Recommendation 3 – Treasurer Authorization**

The Treasurer should contact the bank to ensure that her authorization is required to open City-owned bank accounts.

Status of Corrective Action: Fully Implemented

Observations/Findings: An official from the City’s financial institution confirmed that the Treasurer’s written authorization is required to open a City bank account.

### **Recommendation 4 – Account Signatories**

The Treasurer should ensure that former officials and employees are promptly removed from the list of active signers.

Status of Corrective Action: Fully Implemented

Observations/Findings: An official from the City's financial institution confirmed that all former employees have been removed from the lists of active signers on the City's bank accounts.

**Recommendation 5 – Reconciliation**

The Treasurer should ensure that all City-owned bank accounts are reconciled in a timely and accurate manner.

Status of Corrective Action: Fully Implemented

Observations/Findings: We interviewed the Treasurer and City Accountant and found that the City Accountant is responsible for performing reconciliations of the bank accounts maintained by the Treasurer. In addition, the Planning and Police Departments have bank accounts, and each department is responsible for reconciling its own accounts. The reconciliations performed by these departments are remitted to the Treasurer's office and are reviewed and approved by the City Accountant. We reviewed bank reconciliations for each of the City's current bank accounts and found that the reconciliations were complete and timely for all accounts.

**Recommendation 6 – Number of City-Owned Bank Accounts**

The Treasurer should reduce the number of City-owned bank accounts to an acceptable and practicable minimum.

Status of Corrective Action: Not Implemented

Observations/Findings: Our audit found that the City had 49 open bank accounts. We reviewed the City's current bank accounts and compared the open accounts to the accounts in use during the audit. We found that the City closed eight of the 49 accounts that were open during our audit. However, the City has also opened an additional 20 accounts since the audit. Five of those 20 accounts have since been closed. As a result, the City now has 56 open accounts.

**Recommendation 7 – Unreconciled Account Balances**

The Treasurer should investigate the unreconciled balances in the payroll and general fund checking account to determine the source of the funds and make all transfers that are necessary to ensure that all moneys are in the proper bank accounts.

Status of Corrective Action: Fully Implemented

Observations/Findings: All unreconciled balances in the payroll and general fund checking accounts have been investigated and the accounts now reconcile. The City has hired a certified public accountant to reconcile all accounts monthly and ensure that reconciliations are conducted in a timely manner.

### **Recommendation 8 – Mayor’s Bank Account**

The Mayor should ensure that the bank account in his custody is transferred to the Treasurer, that it is reconciled in a timely and accurate manner and that the account transactions are reflected in the City's financial records or reports.

Status of Corrective Action: Not Implemented

Observations/Findings: According to an official from the City’s financial institution, the Mayor and his secretary are the only signatories on this account. Furthermore, the Treasurer stated that, while she receives copies of the bank statements for this account, she does not have custody of the bank checks or control disbursements from this account.

### **Recommendation 9 – Treasurer’s Monthly Reports**

The Treasurer should prepare and submit a detailed monthly report to the Clerk in the manner required by the Charter.

Status of Corrective Action: Partially Implemented

Observations/Findings: According to the Charter, the Treasurer must prepare and submit monthly reports in a manner prescribed by the Council. We interviewed the Treasurer and found she prepared monthly reports for the Council; however, the last report prepared was in April 2011 for the period August 2010 to February 2011. According to the Treasurer, she has not received clear direction from the Council on its requirements for the reports’ form. As a result of the lack of direction provided by the Council, the Treasurer has not produced reports since April 2011.

### **Recommendation 10 – Monthly Report Required by the Council**

The Council should ensure that the Treasurer prepares and submits a detailed monthly report to the Clerk as required by the Charter.

Status of Corrective Action: Partially Implemented

Observations/Findings: As outlined above, the Charter requires the Council to prescribe the form of the monthly reports to be prepared by the Treasurer. The Council President stated that he does not feel the form used by the Treasurer until April 2011 was providing the Council with sufficient information. The Council hired a vendor, who assisted City officials in preparing a form to be used to report cash flow. This form was completed in August 2011, while we were on-site, but the Treasurer had not yet had the opportunity to use it. While the Council is taking some action to prescribe the form of monthly Treasurer’s reports, only the cash flow portion has been addressed; investments and bank reconciliations have not yet been addressed. As such, the Council still does not receive adequate financial information to assist in making management decisions.

## **Recommendation 11 – Investment Plan**

The Council should develop a sound investment program including the use of a formal competitive process for making investment decisions, cash flow projections to ensure that idle moneys are identified and made available for investment, and minimizing the number of non-interest bearing accounts when possible. The investment policy should be reviewed and updated annually.

Status of Corrective Action: Not Implemented

Observations/Findings: Our audit found that the City’s investment policy, which was adopted in 1996, makes the Council and Treasurer responsible for developing an investment program. The City continues to operate without a sound investment program because the Council and Treasurer have not addressed this recommendation. Furthermore, the audit found that the Council had not reviewed and updated its investment policy since 1996. The Council still has not reviewed and updated its investment policy, even though the Corrective Action Plan filed with us in April 2009 indicated that the City was planning on updating the policy “in the very near future.”

## **2009M-15 Internal Controls Over Payroll and Personal Services**

### **Recommendation 1 – Payroll Policy**

The Council should establish a comprehensive payroll processing policy that incorporates the duties, records and procedures needed to ensure that the processing of payroll is accurate, efficient and appropriate.

Status of Corrective Action: Not Implemented

Observations/Findings: We interviewed the City Clerk, Treasurer and Council President and found that the City has neither adopted a comprehensive payroll processing policy nor developed any written payroll processing procedures.

### **Recommendation 2 – Compensation and Benefits**

The Council should ensure that all employees are covered by collective bargaining agreements or Council resolutions, which clearly specify all compensation and benefits.

Status of Corrective Action: Not Implemented

Observations/Findings: We interviewed the Council President and City Clerk and found that the Council has not passed any such resolution. The Charter contains provisions which define leave benefits for non-union employees; however, other benefits such as health and dental insurance are not clearly defined by Council resolution or the Charter. According to the Council President, the Council established compensation for non-union employees by adopting budgets with specific appropriations for each salary. City officials informed us that the 2011-12 adopted budget included a salary increase for one individual. The Council did not wish to approve this salary increase, and it was unaware

that the increase was included in the budget. As a result, the Council unknowingly approved the increase when it adopted the budget. This could have been prevented if the Council had adopted a resolution establishing salaries and pay rates for all non-union employees.

### **Recommendation 3 – Segregation of Duties**

The Treasurer should evaluate the payroll clerk's duties and responsibilities and properly segregate duties.

Status of Corrective Action: Not Implemented

Observations/Findings: We interviewed the Treasurer, Council President and payroll clerk and found that the City has not altered its payroll processing procedures or segregated the duties of the individual responsible for payroll processing. The City Accountant receives the bi-weekly payroll reports to review; however, she does not receive any other documentation or source documents, such as time records, to compare the payroll reports to. As a result, she cannot perform an adequate oversight review to mitigate the risks posed by one employee performing all payroll processing duties.

### **Recommendation 4 – Leave Time Records**

The Council and City officials should ensure that accurate and complete leave time records are maintained for all City officials and employees who are entitled to leave time benefits. In addition, City officials should designate someone independent of the maintenance of leave time records to review leave time accrual records and balances periodically throughout the fiscal year.

Status of Corrective Action: Not Implemented

Observations/Findings: We interviewed the payroll clerk, Council President and department heads and found that each department is responsible for maintaining leave records for its employees. The manner in which leave records are maintained varies by department. We selected a random sample of three employees and recalculated their leave accruals based on their collective bargaining agreement provisions. We found leave accrual variances for all three employees, valued at approximately \$2,500. For example, one employee was credited with 100 hours of sick leave and 24 hours of personal leave to which he was not entitled. He used all 124 hours, valued at approximately \$1,700, which he erroneously received.

## **2009M-188 Internal Controls Over Cash Receipts**

### **Recommendation 1 – Policies and Procedures and Segregation of Duties**

The Council should ensure that an adequate system of internal controls, with written policies and procedures and a proper segregation of duties, is established over the cash collection process.

Status of Corrective Action: Partially Implemented

Observations/Findings: We interviewed the Treasurer and Council President and found that the Treasurer has developed written procedures for the cash collection process; however, duties have still not been adequately segregated and no mitigating controls have been established.

**Recommendation 2 – Council Oversight**

The Council should provide adequate oversight of the cash receipts process in the Treasurer’s Office by reviewing periodic reports summarizing cash collection activity.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Council President informed us that the auditing committee now performs quarterly audits of cash receipts. We obtained a copy of the most recent audit performed by the auditing committee and found that it appeared reasonable. While this is a good internal control, the Council still does not review periodic reports summarizing cash collection activity. In fact, the Council does not receive any reports which summarize cash collections during the year.

**Recommendation 3 – Employee Access**

The Council should implement controls to ensure that employees have access to only the records that are necessary or at a minimum, implement a process in which an audit log of the transactions is regularly produced by and reviewed by City officials.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Council President told us that the Council has implemented a quarterly audit of cash receipts by members of the auditing committee. However, this audit does not include a review of an audit log generated from the City’s computerized cash receipts program.

**Recommendation 4 – Cash Receipts Software Controls**

The Treasurer should appropriately use the available internal controls within the cash receipts software to ensure that employees have access to only the records that are completely necessary or, at a minimum, implement a process in which an audit log of transactions is regularly produced and reviewed by City officials.

Status of Corrective Action: Not Implemented

Observations/Findings: We interviewed the Treasurer and Deputy Treasurer and found that system access controls have not been altered since the audit. Furthermore, an audit log of transactions is not produced or reviewed by an individual independent of the cash collection process.

## **Recommendation 5 – Accounting Records for Receipts**

The Council should ensure that the Treasurer maintains accurate and complete accounting records for all receipts collected.

Status of Corrective Action: Fully Implemented

Observations/Findings: We interviewed the Treasurer and Deputy Treasurer and found that, since the audit, the City has begun using duplicate receipt tape for all collections. One copy of the duplicate tape is given to the payee and the other copy is retained by the City for its records. When City officials make adjustments to the computerized records, they retain supporting documentation. Furthermore, the Treasurer now requires residents and payees to make separate payments for separate bills, thus allowing her to deposit each payment into the appropriate bank account without performing transfers to compensate for differences. These procedures have improved the quality of documentation maintained by the Treasurer's office. We selected a random sample of five receipts totaling \$14,818 from the City's computerized receipt register and were able to trace all receipts to adequate source documents.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage you to continue with your efforts to implement our recommended improvements in your fiscal management.

I trust that our follow-up review was of assistance to you. If you have any further questions, please contact Jeffrey Leonard, Chief Examiner of our Glens Falls Regional Office, at (518)793-0057.

Sincerely,

Steven J. Hancox  
Deputy Comptroller  
Office of the State Comptroller  
Division of Local Government  
and School Accountability