



Town of East Greenbush Financial Management and Online Banking

Report of Examination

Period Covered:

January 1, 2010 — October 31, 2011

2012M-116



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2012

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 East Greenbush, entitled Financial Management and Online Banking. 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 East Greenbush (Town) is located in Rensselaer County and has a population of approximately 16,500. The Town Board (Board) is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations and maintaining sound financial condition. The Town Supervisor (Supervisor) is a member of the Board and serves as the chief executive officer and chief fiscal officer.

The Supervisor is responsible for the receipt, disbursement and custody of Town moneys. The Town Comptroller (Comptroller) is the accounting officer and has the overall responsibility for the Town's accounting records. Although the Board is primarily responsible for the effectiveness and proper functioning of internal controls, the Supervisor and department heads also share this responsibility. The Town's budgeted appropriations for 2012 were about \$20.4 million.

Scope and Objective

The objective of our audit was to review the Town's financial operations for the period January 1, 2010, to October 31, 2011. As a part of our audit, we also examined various taxpayer complaints received by our Office.¹ Our audit addressed the following related questions:

- Are the Town's accounting records adequate to accurately evaluate the Town's financial position?
- Did the Town establish appropriate access for employees using the online banking function?

Audit Results

Over the last several years, the Town has experienced significant signs of fiscal stress and deteriorating financial condition. The Town's accounting records were not accurate and, therefore, did not provide Town officials with the information necessary to evaluate the financial position of the Town's general and highway funds. Due to the poor condition of the Town's accounting records, Town officials could not determine with any degree of certainty what the Town's fund balances actually were at the end of the 2010 fiscal year or for most of 2011.² As of December 31, 2011, the Town's general and highway funds have shown signs of improvement with each fund reporting operating surpluses. However, the general and highway funds had fund deficits of \$1,307,056 and \$783,913 respectively.

¹ See Appendix A

² At October 31, 2011 the Town's trial balance did not balance. However, subsequent to our fieldwork, Town officials provided us with an unaudited trial balance as of December 31, 2011 that was in balance.

Town officials did not adopt written policies and procedures for online banking and, consequently, the Town has inadequate controls over its online banking activity. The Comptroller has access to the online banking modules for the Clerk and Receiver of Taxes and makes transfers from their accounts to the general fund bank accounts. Because of these weaknesses we reviewed 25 online transfers totaling approximately \$5.7 million. We did not identify any issues with the transfers we tested.

As part of this examination, we reviewed multiple taxpayer complaints received by our office regarding the Town's financial operations. Appendix A includes the results of our inquiries regarding these complaints.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix B, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Introduction

Background

The Town of East Greenbush (Town) is located in Rensselaer County and has a population of about 16,500. 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.

The Town Comptroller (Comptroller) is the accounting officer and has the overall responsibility for the Town's accounting records. He is also responsible for auditing, allowing or rejecting claims, preparing abstracts, filing claims, preparing checks for the Supervisor's signature and providing financial reports. 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 functioning properly.

The Town provides various services to its residents, including law enforcement, street maintenance, parks and recreation programs, water, sewer, library, and general government support. Most of the expenditures incurred in providing these services are accounted for in the general, highway, water and sewer funds. The Town's operating funds' appropriations for the 2012 fiscal year are approximately \$20.4 million, funded primarily with real property taxes, sales tax, user charges and State aid.

Objective

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

- Are the Town's accounting records adequate to accurately evaluate the Town's financial position?
- Did the Town establish appropriate access to employees using the online banking function?

Scope and Methodology

We reviewed the Town's accounting records, and evaluated financial condition and online banking activities for the period January, 1 2010 to October 31, 2011. As a part of our audit, we also examined various taxpayer complaints received by our Office.³

³ See Appendix A

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix 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 B, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Financial Management

The Board is responsible for the Town's overall financial management, including monitoring and evaluating financial condition. To adequately evaluate financial condition, it is essential that complete, accurate and timely accounting records are maintained to properly account for and report the Town's financial condition and activities. The lack of adequate and timely accounting records makes it difficult for the Supervisor and Board to evaluate the Town's financial activities and inaccurate records can obscure the Town's true financial condition.

Over the last several years, the Town has experienced signs of significant fiscal stress and deteriorating financial condition. The Town's accounting records were not accurate and, therefore, did not provide Town officials with the information necessary to evaluate the financial position of the Town's general and highway funds. Due to the poor condition of the Town's accounting records, Town officials could not determine with any degree of certainty what the Town's fund balances actually were at the end of the 2010 fiscal year or for most of 2011.⁴ As of December 31, 2011, the Town's general and highway funds have shown signs of improvement with each fund reporting operating surpluses. However, both funds still have fund balance deficits.

Accounting Records

The Comptroller, as accounting officer, is responsible for maintaining complete, accurate and up-to-date accounting records. Accordingly, general ledgers, cash receipt and disbursement journals and subsidiary revenue and appropriation ledgers must be maintained in a complete, accurate, and timely manner. As the chief fiscal officer, the Supervisor must provide sufficient oversight to ensure that suitable records are maintained to record financial information accurately and on a timely basis.

General Ledgers — The general ledger is a detailed accounting for assets, liabilities and equity (fund balance) accounts as well as revenue, expenditure and budgetary control accounts. At any point in time, the sum of the accounts in the general ledger should balance. As of December 31, 2009 and 2010, the Town's general ledgers⁵ for

⁴ At October 31, 2011 the Town's trial balance did not balance. However, subsequent to our fieldwork, Town officials provided us with an unaudited trial balance as of December 31, 2011 that was in balance.

⁵ The Town Comptroller provided OSC with December 31, 2009 and December 31, 2010 general ledger trial balances for the general and highway funds on December 19, 2011.

the general and highway funds did not balance. The following chart shows the recorded assets, liabilities, and fund balance for these funds.⁶

Table 1: General and Highway Fund Balances for 2009, 2010, and 2011						
	December 31, 2009		December 31, 2010		December 31, 2011^a	
	General Fund	Highway Fund	General Fund	Highway Fund	General Fund	Highway Fund
Total Assets	\$275,714	\$1,139	(\$1,706,126)	(\$261,888)	\$526,246	\$105,090
Liabilities	\$2,048,764	\$842,587	\$114,878	\$773,615	\$1,833,302	\$889,003
Fund Balance	(\$2,648,124)	(\$1,030,993)	(\$2,692,850)	(\$1,225,048)	(\$1,307,056)	(\$783,913)
Total Liabilities and Fund Balance	(\$599,360)	(\$188,406)	(\$2,577,972)	(\$451,433)	\$526,246	\$105,090
Difference	\$875,074	\$189,545	\$871,846	\$189,545	\$0	\$0

^a Balances as of 12/31/11 were based on preliminary, unaudited results of operations obtained from the Town after our fieldwork was complete.

The current Comptroller took office in January 2010. When asked about the trial balances being out of balance, he could not provide an explanation as to why this had occurred. Subsequent to our fieldwork, the Comptroller provided an unaudited trial balance as of December 31, 2011 that balanced.

Annual Update Document — The Annual Update Document (AUD) is the official report of the Town’s financial activity and as such should agree with the Town’s financial records. We compared the general and highway general ledger account balances for assets, liabilities, and fund balance as of December 31, 2009, to the amounts reported in the 2009 AUD and found 12 of the 16 accounts were not supported by the accounting records. Specifically, on its AUD, the Town reported balances for five accounts that exceeded the balances in the accounting records by a total of \$1.6 million; the balances for another seven accounts, as reported on the AUD, were lower than balances in the accounting records by a total of \$1 million. In addition, the total reported revenues and expenditures for the general and highway funds did not agree with the accounting records.

The current Comptroller stated the reasons for the differences were because of adjusting journal entries proposed by the Town’s external auditing firm. Although these adjustments accounted for the majority of the differences, there were still additional differences between the accounting records and the AUD which the current Comptroller could not explain.

⁶Total assets should equal total liabilities and fund balance.

Financial Condition

A local government's financial condition reflects its ability to provide and finance services on a continuing basis. The general ledger accounts for assets, liabilities and fund balance help substantiate the financial condition of the Town at a given point in time. A local government is considered to have sound financial health when it can consistently generate sufficient revenues to finance anticipated expenditures; maintain sufficient cash flow to pay bills and other obligations when due, without relying on short-term borrowings; and provide services at the level and quality needed or desired for the health, safety and welfare of residents. Conversely, local governments in poor financial condition often experience unplanned operating deficits, which occur when total expenditures exceed total revenues.

Town officials were unable to determine, with any degree of certainty, what the Town's fund balances actually were at the end of the 2010 fiscal year or for most of 2011 due to the poor condition of the accounting records. Based on our review of the Town's operations (recorded revenues and expenditures), it appears that both the general and highway funds had deficit fund balances at the end of the 2010 fiscal year. However, as of December 31, 2011 the Town's financial condition has improved slightly. The following table illustrates the Town's general and highway funds' financial operations:

	General Fund		Highway Fund	
Adjusted Fund Deficit as of 12/31/09		(\$1,735,953)		(\$895,840)
2010 Revenues	\$7,698,983		\$2,712,828	
2010 Expenditures	\$7,664,037		\$2,785,338	
2010 Operating Surplus/(Deficit)		\$34,946		(\$72,510)
Fund Deficit as of 12/31/10		(\$1,701,007)		(\$968,350)
2011 Revenues	\$8,920,290		\$3,082,737	
2011 Expenditures	\$8,526,339		\$2,898,300	
2011 Operating Surplus		\$393,951		\$184,437
Fund Deficit as of 12/31/11 ^a		(\$1,307,056)		(\$783,913)

^a Fund balance deficits as of 12/31/11 were based on preliminary, unaudited results of operations obtained from the Town after our fieldwork was complete.

Due to the poor condition of the Town's records, we were unable to verify the exact amount of the fund deficit as of December 31, 2009. To get an estimate of the Town's financial position, we started with the unaudited fund deficit amounts for the general and highway funds that were reported to OSC on the 2009 AUD. The 2010 AUD included prior period adjustments to the general and highway funds to adjust the reported fund balance to the amount recorded on the December 31, 2009 audited financial statement. We performed audit tests⁷ on

⁷ Refer to Appendix C, Audit Methodology and Standards for descriptions of the audit procedures performed.

the 2010 and 2011 revenues and expenditures to gain a reasonable assurance that the reported numbers were an accurate representation of the Town's financial activity for the period.

Although the general and highway funds showed some signs of improvement from the 2010 ending fund balances, both funds are still in a state of fiscal stress and reported fund balance deficits for 2011. Based on the information from the Town, the general fund realized an operating surplus of \$393,951 and ended the year with a fund balance deficit of \$1,307,056. The highway fund realized an operating surplus of \$184,437 and ended the year with a fund balance deficit of \$783,913.

Recommendations

1. The Board should implement fiscal policies to ensure that the Town's accounting records maintained by the Comptroller are complete, accurate and up-to-date.
2. The Board should develop a comprehensive plan to eliminate deficit fund balances that exist in the general and highway funds.

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 proper internal controls, it is important that the Town grants access to the online banking system to users based on their official job duties and responsibilities.

A good system of internal controls over online banking includes comprehensive policies and procedures that, at a minimum, specify the employees authorized to perform online banking, record online banking transactions, and make electronic transfers. The policies and procedures also must require management preauthorization of transfers that include documentation of the purpose, source, destination, and amount of each transfer. Additionally, it is important that policies and procedures for online banking require independent confirmation by the bank with a Town official other than the person requesting a transfer and routine management review and reconciliation of electronic transfer activity.

Town officials did not adopt written policies and procedures for online banking and, consequently, the Town has inadequate controls over its online banking activity. The Comptroller has access to the online banking modules for the Clerk and Receiver of Taxes and performs transfers from their accounts to the general fund bank accounts. Because of these weaknesses, we reviewed 25 online transfers totaling approximately \$5.7 million.⁸ We did not identify any issues with any of the transfers that we tested. However, we identified minor deficiencies related to the controls over initiating the transfers, which we discussed with Town officials during our audit.

The Board's failure to establish policies and procedures for online banking resulted in the Comptroller having access to bank accounts online and the ability to transfer money. It also resulted in users having excessive online banking privileges that were not applicable to their job duties. As a result, the Town has a significant risk that unauthorized and inappropriate online banking transactions could occur.

⁸ Refer to Appendix C, Audit Methodology and Standards, for sample selection methodology.

Recommendation

3. 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

TAXPAYERS' COMPLAINTS

We reviewed the following complaints from taxpayers that pertained to the scope of our examination:

1. We received multiple complaints regarding the Town paying stipends to certain officers and employees (employees).

Conclusion: We reviewed stipend payments to Town officials from January 1, 2007, to October 31, 2011. During the 2007, 2008, and 2009 fiscal years, the Town paid 14 employees \$125,000⁹ in stipends. The Town should consult with legal counsel and determine if the stipends should be recouped. We did not find any stipend payments in the 2010 and 2011 fiscal years.

Stipends For Board-Authorized Positions — Two employees received stipends as compensation for an additional, separate position. The Board has the authority to compensate a Town employee who holds two separate positions. The following chart shows the two employees who received a stipend for a second Board-authorized position from the annual reorganizational minutes for that year:

Year Paid	Employee's Title	Reason for Stipend^a	Total Amount
2007, 2008, 2009	Director of Finance	Administrative Assistant to Supervisor	\$21,000
2009	Secretary - Supervisor	Senior Liaison	\$2,000
Total			\$23,000

^a The reason for stipend was obtained from a document prepared by the Comptroller with input from the former Supervisor. The reasons were confirmed with the Comptroller.

Stipends For Positions Without Board Authorization — Three employees were compensated for working an additional position but there was no evidence of the Board establishing the positions or appointing employees to the positions listed. In addition, two employees were compensated for holding the position of budget officer. However, we found no evidence of appointments by the Supervisor to the position, nor any evidence of the Board fixing a separate salary for the budget officer position. We also did not find any evidence of the Board ratifying the additional amounts paid to these employees in excess of their established salary as compensation for an additional position.

⁹ Some employees received stipends in multiple years.

Table 4: Stipends Without Board Authorization			
Year Paid	Employee's Title	Reason for Stipend^a	Total Amount
2007, 2008, 2009	Town Comptroller	Budget Officer	\$21,000
2007, 2008, 2009	Building Inspector	Safety Manager	\$10,200
2007	Bookkeeper	Budget Officer	\$6,000
2008, 2009	Director of Planning	MS4 and DEC	\$5,000
2007, 2008	Assessor	STAR Administrator	\$3,100
Total			\$45,300
^a The reason for the stipend was obtained from a document prepared by the Comptroller with input from the former Supervisor. The reasons were confirmed with the Comptroller.			

Stipends Without An Additional Position — We found eight employees who received stipend payments but there was no evidence of the establishment of a separate position and appointment of that employee to that position. We found that some of these stipends were paid to these eight employees for extra hours worked, certain specified tasks or expenses incurred. However, for some payments we did not find an explanation describing what they were for. We also did not find any Board action ratifying the “stipend” amounts paid.

Table 5: Stipends Without An Additional Position			
Year Paid	Employee's Title	Reason for Stipend^a	Total Amount
2007, 2008, 2009	Commissioner of Public Works	On call/extra hours	\$17,400
2007, 2008, 2009	Receiver of Taxes	Deposit processing	\$13,200
2008, 2009	Supervisor	Expenses/extra hours	\$10,000
2007, 2008, 2009	Youth Program Director/Director of Community Services	Extra hours/nights and weekends	\$7,000
2007, 2008, 2009	Deputy Commissioner of Public Works	On call/extra hours	\$2,900
2007, 2008	Secretary	No explanation	\$2,200
2008	Secretary - Supervisor	Senior Liaison	\$2,000
2008	Police officer ^b	No explanation	\$2,000
Total			\$56,700
^a The reason for stipend was obtained from a document prepared by the Comptroller with input from the former Supervisor. The reasons were confirmed with the Comptroller.			
^b This employee did not have a specific title listed for 2008. In 2009, this employee was the Deputy Police Commissioner.			

In 2008, the Board-approved salary schedule included a senior liaison position and the Supervisor's secretary was appointed to that position with a salary.

We found that the practice of paying stipends has ceased. We encourage Town officials to continue to implement the existing internal controls to prevent any improper future payment of stipends. In addition, the Town Board should consult with legal counsel and determine if the stipends should be recouped.

Longevity and Sick Leave Incentives — During our review of the stipends, we found the former Town Supervisor received longevity pay and the Receiver of Taxes received longevity pay and sick leave incentive pay in addition to their salary and stipend. The following chart shows the total amounts paid to these two officials for the years reviewed:

Table 6: Longevity and Sick Leave Incentives		
Payment	Former Supervisor	Receiver of Taxes
2007 Longevity	\$1,800	\$3,800
2007 Sick Leave Incentive	\$0	\$1,000
2008 Longevity	\$2,300	\$4,300
2008 Sick Leave Incentive	\$0	\$1,000
2009 Longevity	\$2,300	\$4,300
2009 Sick Leave Incentive	\$0	\$1,000
2010 Longevity	\$2,800	\$4,800
2010 Sick Leave Incentive	\$0	\$1,000
2011 Longevity	\$2,800	\$4,800
2011 Sick Leave Incentive	\$0	\$1,000
Total	\$12,000	\$27,000

It is well established that elected officials do not accrue sick leave credits. As an incident to holding elective office, they generally may take as much or as little time off as they deem appropriate. Therefore, it is unclear the basis upon which the Supervisor and Receiver of Taxes would be eligible for a sick leave incentive. As for the longevity payments, Town Law states that the salaries of members of the Board, which includes the Supervisor, cannot exceed the amount of the salary published in the notice of hearing for the annual budget except by the adoption of a local law subject to permissive referendum requirements. The Receiver of Taxes may receive an increase over the amount listed in the notice of hearing for the annual budget, but the Board must approve this increase through a Board resolution. We did not find a Board resolution or any evidence of Board ratification supporting these increases. Further, Town Law does not authorize the payment of lump sum amounts to elected officials in excess of the salaries fixed for their office.

The Board should consult with legal counsel and recoup these payments.

2. We received multiple complaints that the Town hired a person as a Department of Public Works consultant and the consultant was paid through payroll.

Conclusion: During the audit, we reviewed the consultant’s classification as an employee versus an independent contractor. The Town classified this person as an employee and paid the person the Board-approved compensation. The classification of this person as an employee was forwarded to the New York State Local Retirement System (NYSLRS) for review.

3. We received a complaint questioning the Town’s classification of the Town Attorney as an employee.

Conclusion: During the audit, we reviewed the Town Attorney’s and Deputy Town Attorney’s classifications as employees versus independent contractors. Prior to 2010, these two attorneys

were classified as public officers (employees) and completed oaths of office. In 2010, the Town Board decided that these positions would be independent contractors and appointed a local law firm to be the Town Attorney instead of the individual who held the position. The Deputy Town Attorney remained with the Town as an independent contractor for 2010.

In 2011, the Town classified the Town Attorney and Deputy Town Attorney positions as public officers (employees) and appointed the same two individuals who held these offices prior to 2010. The individual who was appointed the Town Attorney in 2011 is a partner at a local law firm and was also appointed as the Town Attorney in the Town of Rotterdam.

The Town's classification of these individuals as employees has been forwarded to the NYSLRS for further investigation.

4. We received a complaint stating a sick leave incentive pay clause in the Town's collective bargaining agreement (CBA) was unauthorized.

Conclusion: On November 6, 2006, the Board authorized the Supervisor to sign a memorandum of agreement (MOA) for employees covered under the CBA that extended the contract from 2007 to 2010 with amendments outlined in the MOA. However, the MOA did not mention sick leave incentive pay. On January 23, 2007, the Supervisor signed the CBA for 2007 through 2010, which included the sick leave incentive pay with the dates beginning on January 1, 2003 and sunset on December 31, 2006. On January 25, 2007, the Supervisor signed another MOA that changed the dates in the sick leave incentive pay clause from January 1, 2003 and December 31, 2006 to January 1, 2007 and December 31, 2010, respectively. From discussions with both the Supervisor and a union representative, the MOA on January 25, 2007 was to correct a clerical error for the sick leave incentive dates. The current CBA includes a sick leave incentive pay clause that does not include a sunset date.

Based on the documentation reviewed, it appears that the Board intended to keep the sick leave pay incentive clause in the 2007 to 2010 contract and, therefore, the second MOA was to correct the clerical error.

5. We received a complaint questioning the Board's process for amending the 2012 preliminary budget.

Conclusion: Prior to the adoption of the final budget, the Board made modifications to the preliminary budget. These modifications included reducing the Supervisor's salary, increasing the Receiver of Taxes' salary, and increasing the tax levy. Town Law states the Board can modify the tentative budget and the preliminary budget after it has been presented at the public hearing. When the Board adopted the budget at a public meeting in November, the modifications made to the budget were ratified.

The complaint also focuses on the reduction of the incoming Supervisor's salary. The budgetary line item for the Supervisor's salary was reduced due to the reclassifying of staff salaries to other budget line items. The incoming Supervisor's salary remained the same as his predecessor's salary.

6. We received multiple complaints regarding the Town's lack of compensation for the sale of scrap metal in 2008 and 2009.

Conclusion: In June 2011, the Town received compensation for the 2008 and 2009 scrap metal sales.

7. We received a complaint regarding a Board member who is an employee of a contractor that received a contract to install photovoltaic cells on Town buildings.

Conclusion: The Town advertised for bids and received sealed bids from multiple contractors for this project. The Town awarded the contract to the lowest bidder and the Board member abstained from voting on the award.

8. We received a complaint that the Town Comptroller's Office paid for advertisements in support of the incumbents.

Conclusion: We reviewed a file of all claims the Town paid in 2011. We did find various payments to local newspapers but the explanations of the payments were not unusual Town expenditures. We did not find any payments related to political advertisements.

9. We received a complaint regarding a discrepancy between the amount of money the City of Rensselaer (City) owes the Town for a joint water system bond. The complaint states the former Supervisor indicated that the City owes the Town between \$3.2 and \$3.5 million and will not provide information as to why the Town only received \$650,000.

Conclusion: In 2008, an \$8 million bond was issued for a joint water agreement between the City and Town. The City is responsible for 46 percent of the debt service over the 30-year life of the bond. The former Supervisor's quoted amount of \$3.2 to \$3.5 million is approximately the principal amount owed over the life of the bond. In July 2011, the Town received \$634,301 which was the amount the City owed the Town for the prior debt service payments.

APPENDIX B
RESPONSE FROM LOCAL OFFICIALS

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



The Town of East Greenbush

Keith Langley, Supervisor
225 Columbia Turnpike Rensselaer, New York 12144 (518) 477-4775 FAX (518) 477-2386

November 9, 2012

Jeffrey Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 14203-2510

Re: Audit (2012M-116)

Mr. Leonard:

The Town of East Greenbush is in receipt of the Report of Examination. The Town would like to express its appreciation to the audit staff for their professionalism during the audit.

The Town Board is committed to implementing all recommendations outlined in the examination and The Town will submit to your office, within 90 days, its written Corrective Action Plan (CAP) and will immediately begin the process of addressing the three recommendations.

If there are any questions, please do not hesitate to let me know.

Thank you for your assistance.

Sincerely,

Keith Langley
Supervisor
Town of East Greenbush

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Town's financial condition and the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight and budgeting, chief financial officer records and reports, cash receipts and disbursements, purchasing, payroll and personal services, Town Clerk, Receiver of Taxes, and information technology. 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 financial management and online banking for further audit testing.

During this audit, we examined the Town's financial management and online banking operations for the period January 1, 2010, to October 31, 2011. In addition, we followed up on taxpayer complaints we received related to the Town's financial operations.

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

- We interviewed Town officials responsible for financial oversight and maintaining accounting records and reviewed Board minutes to obtain an understanding of the Town's policies and procedures.
- We reviewed the Comptroller's management of the Town's financial information and, on a test basis, reviewed the available accounting records including the general ledger, journal entries, bank reconciliations and budget reports.
- We compared the 2009 AUD to the accounting records to determine if the reported assets, liabilities, and fund balance are supported by the accounting records.
- We selected all revenue and expenditure accounts with balances greater than \$100,000 for the fiscal year ended December 31, 2010 and the 10-month period ended October 31, 2011 for additional testing. We selected transactions from these revenue and expenditure accounts for additional testing based on our professional judgment and traced the selected transactions to the detailed records supporting the entries in the accounting system.
- We interviewed Town officials responsible for online banking to determine the existing internal controls over online banking activities.

- We judgmentally selected 25 online banking transactions from the population of 403 transactions during the audit program for additional testing. We selected 10 Receiver of Taxes transactions, five Town Clerk transactions, five general fund transactions, and five payroll and debt service transactions.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

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<http://www.osc.state.ny.us/localgov/>

APPENDIX E
OFFICE OF THE STATE COMPTROLLER
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