



Town of Providence

Financial Operations

Report of Examination

Period Covered:

January 1, 2010 — July 31, 2011

2011M-262



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	6
Comments of Local Officials and Corrective Action	6
SUPERVISOR’S RECORDS AND REPORTS	7
Accounting Records	7
Financial Reports	8
Recommendations	9
BOARD OVERSIGHT	11
Budgets	11
Budget Status Reports	12
Annual Audit	14
Audit of Claims	15
Recommendations	16
TOWN CLERK RECORDS	18
Recommendations	19
APPENDIX A Response From Local Officials	20
APPENDIX B Audit Methodology and Standards	22
APPENDIX C How to Obtain Additional Copies of the Report	24
APPENDIX D Local Regional Office Listing	25

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 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 Providence, 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 Providence (Town) is located in Saratoga County. The elected Town Board (Board) consists of four council members and the Town Supervisor (Supervisor), and is responsible for managing Town operations and overseeing the Town's financial affairs. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town moneys, maintaining accounting records, and providing financial reports to the Board.

The Town offers services to its residents including justice court, transfer station services, fire protection, ambulance, and street maintenance and improvement services. For 2010, the Town financed the majority of its operating costs of approximately \$1.3 million through real property taxes, sales taxes, and State aid.

The elected Town Clerk (Clerk) is responsible for issuing licenses and collecting various fees, including garbage bag and resident permit fees.

Scope and Objective

The objective of our audit was to review the Town's financial operations for the period January 1, 2010 to July 31, 2011. We extended our scope back to October 1, 2009 to test garbage bag claims. Our audit addressed the following related questions:

- Does the Supervisor maintain complete and accurate accounting records and prepare timely reports of the Town's financial activities?
- Does the Board provide accurate, timely, and adequate oversight over Town finances?
- Does the Clerk maintain accurate, complete, and timely records?

Audit Results

The Supervisor's accounting records were in poor condition, and did not provide an accurate portrait of the Town's financial condition at any time, nor did they accurately state the fund balances. Further, though the Town has a January to December fiscal year, the accounting system is set up for a February to January fiscal year. Because of these issues, all of the Town's financial reports were unreliable and it's not possible for the Supervisor to provide an accurate picture of the Town's financial condition to the Board at any time. The Supervisor annually filed the Annual Update Document

(AUD); however, the Board has no assurance that the amounts reported were accurate because of the state of the accounting records.

The Board needs to improve its oversight of Town finances. The budgets adopted by the Board for 2010 and 2011 did not include appropriated fund balance as a funding source and misclassified debt service costs. The Board did not require the Supervisor to provide adequate monthly budget-to-actual comparison reports. In 2010, the Board did not perform an audit of the 2009 Supervisor and Clerk records and the Board's audit of the 2010 Supervisor and Clerk records was insufficient. Finally, the Board did not properly audit claims prior to payment and has authorized the use of debit cards which circumvents the claims auditing process.

The Clerk's operations need improvement. Town officials have not implemented policies and procedures regarding the sale of garbage bags and resident transfer station permits. In addition, the Clerk did not maintain an inventory of garbage bags and resident permits. This lack of internal controls creates an environment where errors and irregularities in the accounting for garbage bags and sales revenue could occur, and go undetected and uncorrected.

Comments of Local Officials

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

Introduction

Background

The Town of Providence (Town) is located in the northwest quadrant of Saratoga County, and has a population of approximately 1,800. The Town Board (Board) consists of four council members and the Town Supervisor (Supervisor), and is responsible for managing Town operations and overseeing the Town's financial affairs.

The Town offers services to its residents that include justice court, transfer station services, fire protection, ambulance, and street maintenance and improvement services. For 2010, the Town financed the majority of its operating costs of approximately \$1.3 million through real property taxes, sales taxes, and State aid.

The Supervisor serves as the chief financial officer and budget officer as well as the chief executive officer. The current Supervisor has been in office since 2010, and uses the financial accounting system that has been in place since 2002. He is responsible for maintaining custody of all Town moneys, maintaining accounting records, filing required financial reports, and preparing the budget for presentation to the Board. He is also responsible for providing the Board with timely, accurate, and useful financial information so that the Board can make knowledgeable financial decisions.

The Town Clerk (Clerk) collects fees for licenses, building applications, and garbage bag and resident permits. The Clerk collected \$58,000 in fees from January 1, 2010 to July 31, 2011, more than half of which was for the sale of garbage bags and permits. In March 2011, the Clerk appointed a deputy who performs the same duties as the Clerk.

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 prepare timely reports of the Town's financial activities?
- Does the Board provide accurate, timely, and adequate oversight over Town finances?
- Does the Clerk maintain accurate, complete, and timely records?

**Scope and
Methodology**

We examined Town’s financial operations for the period January 1, 2010 to July 31, 2011. We extended our scope back to October 1, 2009 to test garbage bag claims.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they 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 Clerk’s office.

Supervisor's Records and Reports

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 the Town's cash balances and those reported by its bank.

The Supervisor did not maintain complete, accurate and up-to-date accounting records or provide complete and accurate monthly financial reports to the Board. As a result, the Board could not properly monitor and manage Town operations. The Supervisor annually filed the AUD; however, the Board has no assurance that the amounts reported are accurate because of the poor accounting records.

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. At the end of each fiscal year, revenues and expenditures should be closed to fund balance, so that at the beginning of each year revenues and expenditures start at zero again. The general ledger accounts for assets, liabilities and fund balance help substantiate the financial condition of the Town at a given point in time. It also is important that the Supervisor perform monthly bank-to-book reconciliations of cash. Any differences must be promptly documented and resolved to ensure that financial activities are accounted for in an accurate and timely manner.

We found accounting records were in poor condition, and did not provide an accurate portrait of the Town's financial condition at any time, nor did they accurately state the fund balances. First, although the Town has a January through December fiscal year, the accounting system inexplicably is set up for a February through January fiscal year so the financial records, even if kept accurately, would never reflect the Town's fiscal year.

Also, we found that the Supervisor does not use the chart of accounts as prescribed by OSC.¹ His accounting records have revenue accounts set up as assets (bank accounts), and expenditure accounts set up as liabilities (accounts payables). The chart of accounts follows generally accepted accounting principles and establishes criteria for classifying the asset, liability, fund equity, revenue, and expenditure accounts. The Town's accounting system does not follow this classification system.

In addition, the Supervisor never closes out his general ledger accounts as required. The revenue and expenditure accounts have had cumulative, running balances since their inception in 2002. Therefore, fund balances are not correct since the revenue and expenditure accounts are not being closed to fund balance at the end of each year.

Because of these issues, all of the Town's financial reports were unreliable and it's not possible for the Supervisor to provide an accurate picture of the Town's financial condition to the Board at any time. The Supervisor annually filed the AUD; however, there is no assurance that the amounts reported were accurate because of the state of the accounting records.

The Supervisor successfully reconciled the accounting system's four checking accounts to bank statements. However, two savings accounts have not properly reconciled to the bank statements since he took office. In fact, we determined these two accounts have not been reconciled since 2002. The Supervisor cannot reconcile these savings accounts without first correcting the other problems in the accounting system.

Financial Reports

The Supervisor should submit detailed financial reports to the Board on a monthly basis. The monthly reports to the Board should provide a detailed accounting of moneys received and disbursed and budget to actual reports which allow the Board to monitor Town operations against the budget.

Because the Supervisor did not maintain appropriate accounting records, he was unable to prepare timely, accurate, and complete reports for the Board. The Supervisor did prepare monthly reports which included a list of bank balances and the status of select highway fund appropriation accounts; however, these reports were inadequate and unreliable. He also provided the Board with a list of receipts and disbursements, but they were inadequate because each report

¹ The State Comptroller is responsible for prescribing the systems of accounts utilized by all local governments. OSC's *Accounting and Reporting Manual* identifies the various funds and accounts used by all towns.

excluded totals, making it difficult to determine how much money was received or disbursed by fund each month.

We reviewed the October, November, and December 2010 Supervisor reports provided to the Board and found the following deficiencies:

- The reports list bank statement balances, but did not indicate if Town records of cash account balances reconcile with those bank balances. Consequently, the Board has no assurance that the cash balances recorded in the accounting records agree with bank balances.
- The reports only included budget to actual numbers for a select number of highway appropriation accounts instead of the budget to actual status of all revenue and appropriation accounts for all funds. The status of a few highway accounts does not provide a complete picture of the condition of Town finances and operations.
- The highway budget to actual comparisons shown in the reports were not mathematically correct. For example, the October report shows the adopted budget amount for maintenance of roads, personal services (\$135,000), the monthly expenditures for October (\$15,731), and the remaining available appropriations (\$16,324). Both the November and December reports showed the same amount of monthly expenditures (\$15,731) and the same remaining available appropriations (\$16,324). In summary, these reports state that over a three month period the Town spent \$47,193 on maintenance of roads, personal services; however, the remaining available appropriations never changed and was \$16,324 at the end of each month.

Based on the sufficiency of cash balances, the Town does not presently appear to be experiencing fiscal stress. However, the lack of accurate and complete records and reports makes it impossible for the Board to monitor the Town's financial condition.

Recommendations

1. The Supervisor should ensure that the Town's accounting records are complete, accurate, and maintained in a timely manner.
2. The Supervisor should perform complete and accurate monthly bank reconciliations and ensure that any differences disclosed by the reconciliation process are promptly identified and resolved.

3. The Supervisor should prepare and provide the Board with complete and accurate monthly financial reports.

Board Oversight

The Board is responsible for the fiscal management and oversight of the Town to ensure that Town 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. In small towns where one person may be responsible for many duties, the Board's oversight is essential to ensure those officials are maintaining accurate, complete records and moneys are properly accounted for. Consequently, the requirement of the Board to audit, or cause to be audited, the annual receipts and disbursements of Town departments is an essential control. The Board is also responsible for the audit of claims, which provides segregation between the purchase of goods or services and the authorization for payment and helps keep the Board involved in Town operations. A Board's effective audit of claims will ensure Town moneys are spent appropriately and legitimately.

The Board needs to improve its oversight of Town finances. The budgets adopted by the Board for 2010 and 2011 did not properly include appropriated fund balance as a funding source and misclassified debt service costs. The Board did not require the Supervisor to provide adequate monthly budget-to-actual comparison reports. In 2010, the Board did not perform an audit of the 2009 Supervisor and Clerk records and the Board's audit of the 2010 Supervisor and Clerk records was insufficient. Finally, the Board did not properly audit claims prior to payment and has authorized the use of debit cards which circumvents the claims auditing process.

Budgets

The Board's adopted budget is a plan for the expected revenues and appropriations necessary for the Town to provide services for the upcoming year's operations. Generally, the amount of the tax levy will be the difference between the estimated cost to provide those services (appropriations) and the expected revenues that will be received (estimated revenues). When the Town has fund balance available from prior years' activity, the Board may appropriate a portion of the fund balance as a financing source in the budget to reduce the tax levy. The Board should show this appropriation of fund balance in the budget to ensure that the budget is balanced and the use of Town moneys is transparent to taxpayers.

After the Board adopts the budget, they should monitor the status of the budget to ensure that the Town's spending stays within budgeted appropriations, and to address revenue shortfalls as necessary. Whenever it appears probable that available appropriations will

be insufficient to meet expenditures, the Board may, by resolution, modify the budget to increase appropriations and provide additional moneys from other sources (e.g., by transferring an unexpended balance of another unexpended appropriation or allocating fund balance). The Town may only use unanticipated revenues² to the extent that the total of all revenues of a fund recognized or reasonably expected to be recognized in the current fiscal year, together with the unappropriated unreserved fund balance, exceeds the total of all revenues and appropriated fund balance as estimated in the budget.

The 2010 and 2011 budgets did not correctly show the appropriation of fund balance as a funding source. However, when we reviewed activity in certain accounts, we found that in the 2010 and 2011 budgets the Board included estimated interfund revenues of \$48,500 and \$53,442 respectively. The Supervisor indicated these amounts represented extra moneys available from the prior year's unused appropriations, revenues the Town realized beyond budgeted estimates, and amounts available in savings (cash) accounts. The use of interfund revenues was essentially an appropriation of fund balance, but this was not classified appropriately in the budget. By only looking at the results of individual revenue and appropriation accounts rather than the fund balance available to appropriate at year end, the Board risks that the budget will not be fully funded.

The Board also used incorrect budget accounts for some activities. For example, in the 2010 budget, the Board appropriated \$25,368 for the last debt service payment on the highway garage in a transportation account instead of a debt service account. They also budgeted \$34,800 for debt service on improvements to the Town hall in the playgrounds and recreational center account. The Board's 2011 budget correctly uses debt service accounts for these expenditures because the Supervisor, as budget officer, corrected the account codes. When the Board does not accurately classify financial activity in the budget, Town finances are less transparent and it is more difficult for the Board to properly monitor Town operations.

Budget Status Reports

The Board should require that the Supervisor provide them with monthly financial reports to properly carry out their fiscal responsibility duties. It is important that these reports include monthly balances of cash and fund balance and detailed year-to-date budget-to-actual comparisons of revenues and appropriations. The Board should ensure they authorize budget adjustments in accordance with Town Law, and that future budget status reports reflect authorized changes.

² State and Federal grants-in-aid, gifts which must be expended for a particular object or purpose, and insurance recoveries for the loss, theft, damage or destruction of real or personal property which are proposed to be used or applied to repair or replace such property, may be appropriated by resolution of the town board at any time.

The Board has not required that the Supervisor provide them with adequate budget status reports. As a result of this lack of information, the Board ran the risk of making poor financial decisions. Due to the weaknesses in the budget process, we reviewed ten budget adjustments (out of 34 in our audit period) totaling \$95,171.³ The Board authorized four budget adjustments totaling \$81,707 that did not comply with Town Law.

- On January 6, 2011, the Board adopted a resolution to increase the 2011 appropriation for Machinery, Capital Outlay by \$67,308; the source of financing for the increase was appropriations left over from the 2010 budget. The original appropriation for this account in the 2011 budget was \$38,000; the Board's action therefore, was an attempt to increase the total available appropriations to \$105,308. This budget amendment is not appropriate as at the end of each fiscal year unrealized revenue and unused appropriation budget amounts lapse, meaning the unused appropriations are no longer available and are not available as a means to increase the subsequent year's budget.
- In the next resolution, the Board authorized the expenditure of \$85,000 on a truck which the Highway Superintendent recommended the Town purchase in November of 2010. By increasing the budget for a single unused appropriation from the prior year, the Board ran the risk of spending more money than was actually available. Further, while preparing the budget, the Board should have taken into account any known capital purchases they planned for the year and properly budgeted for them.
- In May 2010, the Board authorized a transfer of \$10,683 from the highway fund appropriations to the general fund appropriations to cover the cost of benefits for the Deputy Highway Superintendent that were incorrectly budgeted for in the highway fund. There is no provision in law to transfer budgetary appropriations from the highway fund to the general fund. In addition, in order to keep the budget in balance, budget transfers should only be made between appropriations accounts in a specific fund.
- The Board authorized a \$3,716 increase in general fund appropriations based on the receipt of two unanticipated revenues. Because of the Town's poorly maintained records,

³ Refer to Appendix B, Audit Standards and Methodology, for sample selection information.

it wasn't possible for the Board to determine if these increases complied with Town Law.

When the Board does not receive adequate budget status reports, they run the risk of authorizing budget adjustments that could have a negative effect on the Town's financial condition.

Annual Audit

Town Law requires the Board to annually audit, or cause to be audited, the records of all individuals who receive or disburse moneys on behalf of the Town. This periodic audit of the financial details of department operations should be thorough, and when done properly it can provide Board members with an understanding of those operations, which is essential to effective oversight. Once Board members have gained an understanding of the applicable operations and familiarized themselves with the types of records that Town officials should maintain, they should determine that the following minimum concerns are met: financial records are complete and up-to-date; transactions are recorded properly; accountability is computed monthly; and required reports are made timely and accurately.

While the Board appeared to have performed a thorough audit of the Justice Court in both 2010 and 2011, they did not perform the same service for the Supervisor and Clerk. In 2010, the Board did not audit, or contract with an independent certified public accountant to audit, the 2009 records of the Supervisor or the Clerk. The Board minutes indicated the Board discussed scheduling the audit of department records throughout the year, but they never conducted the audit.

In February 2011, the Board performed an inadequate audit of the Clerk's and Supervisor's records. While three of the four board members reviewed the Supervisor's 2010 records, only one board member reviewed the Clerk's 2010 records. There was no indication that the Board addressed the shortcomings of the Supervisor's inadequate records or that they asked the Supervisor to institute corrective measures to improve his records. The Supervisor provided the Board with a printed general ledger (which included the detail of all entries posted to the accounting records), copies of the monthly Supervisor reports that he provided to them throughout the year (which included receipt detail reports and vendor transaction reports), and all of the bank statements with the corresponding bank reconciliation reports.⁴ The general ledger clearly indicated the erroneous chart of accounts and account codes and types used by the Supervisor.

⁴ There were no reconciliation reports for the two savings accounts which the Supervisor could not reconcile.

As a result of the Board's failure to provide adequate oversight of financial activity and ensure that an annual audit was performed, there was a risk that Town moneys were not properly accounted for. Further, this lack of oversight allowed the poor accounting records to continue, leaving the Supervisor without the ability to create reliable financial reports from which the Board could base financial decisions.

Audit of Claims

The Board is responsible for auditing and approving all claims for payment. Auditing claims demands a thorough and deliberate examination of claims before they are paid to verify that they contain supporting documentation that is adequate to show that the claims represent actual and necessary Town expenses. With few exceptions,⁵ all claims must be audited by the Board before payment. The Clerk is responsible for preparing the claims for the Board to audit prior to payment. After the Board approves the claims, the Clerk prepares an abstract of audited claims directing the Supervisor to pay the claimants the allowed amounts. The Board minutes should contain a record of the claims audited and approved for payment.

The Board did not conduct a proper review and audit of claims prior to payment. Board minutes indicated the Board approved the abstracts each month, but Town officials indicated that only one or two Board members reviewed the claims before the Board meeting. In 2001 the Board authorized certain claims consistent with the law (e.g., utilities) be paid prior to Board audit. In January 2010 they authorized debit cards for four employees to make purchases within established limits for each cardholder. Unlike the use of credit cards which result in a bill being submitted to the Town for review and approval prior to disbursing moneys to pay for the acquired goods, when debit cards are used, money is automatically deducted from the Town's bank account at the time of purchase. As a result, payment occurs before audit of the claim, which is in violation of Town Law. Though Town officials submit claims for these debit card purchases each month, purchase amounts have already been deducted from Town accounts.

During our audit period, the Town processed 975 claims totaling \$1.3 million. To determine if claims were for valid and legal purposes, adequately supported with itemized invoices and indication that goods and services were received, and authorized by a department head, we reviewed a sample of 40 claims totaling \$64,155,⁶ and found the following deficiencies:⁷

⁵ For example, salaries, debt service, and, when authorized by Board resolution, public utility services, postage, freight, and express charges

⁶ Refer to Appendix B, Audit Standards and Methodology, for additional information regarding the sample selection process.

⁷ A single claim may have more than one deficiency.

- One claim was for \$35,370 paid to an ambulance company with which the Board did not have a contract. Twelve other claims totaling \$6,382 were not adequately supported with itemized invoices, receipts, or evidence that goods or services were received.
- Twelve claims for 45 debit card purchases totaling \$4,190 were made prior to Board audit. Ten of these transactions did not have adequate itemized receipts to support the purchases. Four of the ten transactions totaling \$529, submitted by the Clerk and Highway Superintendent for office supplies and a camera, were paid based on order confirmations printed from the internet on the date of the order. There were no itemized invoice and receiving documents to assure the Board that these goods were actually received. Additionally, five transactions (including four that were not itemized) were inappropriate. These included four debit card transactions totaling \$190 for turkeys and hams which the Highway Superintendent provided his employees for the holidays.
- Four claims totaling \$1,138 were not for legitimate Town purposes. For example, the Town paid a volunteer fire department member \$600 to purchase presents for town children to be distributed at a fire department sponsored holiday function. Further, the claim had no documentation of the purchases made with the money.

We also compared the same 40 claims to abstracts and canceled checks and found three claims did not agree with abstracts and canceled checks. Two claims were paid with checks from different funds than the abstracts that they were listed on, and one claim did not match the abstract information due to a clerical error. For example, a claim included on the Highway Fund abstract because it represented the Highway Fund's portion of insurance costs was paid from the Trust and Agency Fund's checking account.

The Board's authorization of debit cards and failure to perform an adequate audit of claims increased the risk that the Town paid for goods or services that were not proper Town charges or that it did not receive.

Recommendations

4. The Board should prepare and adopt the budget in the proper format, including appropriations and all funding sources (estimated revenues other than taxes, appropriated fund balance and taxes).
5. The Board should ensure that the Supervisor provides them with

monthly budget status reports to enable them to properly carry out their fiscal duties.

6. The Board should annually audit or provide for the audit of the records and reports of all Town officers or employees who received or disbursed moneys on behalf of the Town in the preceding fiscal year.
7. The Board should conduct a thorough audit of all claims prior to payment.
8. The Board should ensure that all claims contain enough detailed information, supporting documentation, and proper approvals to demonstrate that the claims comply with statutory requirements and policies, that the amounts represent proper Town charges, and that the goods and services were actually received.
9. The Board should discontinue the use of debit cards.

Town Clerk Records

The Clerk's office generates significant revenue for the Town from the sale of garbage bags and resident's transfer station permits (permits).⁸ It is important that Town officials establish internal controls over the purchase, safeguarding, and sale of garbage bags and permits, including written policies and procedures that establish responsibility over garbage bag related activities. To establish accountability, the Clerk should maintain a sufficient record of all financial transactions and an inventory record that accounts for bags and permits purchased, sold, and on-hand. Inventory records of garbage bags and permits purchased, sold, and on-hand are also helpful in reconciling sales. Periodically, the garbage bag inventory records should be reconciled to actual garbage bags on-hand, and any differences should be promptly investigated and resolved. During our audit period, the Clerk sold over \$26,900 of garbage bags and \$6,000 in permits.

The Clerk is responsible for the sale of garbage bags and permits. Residents must obtain press-numbered permits for their car each year, and use Town issued green garbage bags to dispose of refuse at the Town transfer station. The Clerk is responsible for purchasing garbage bags and permits and maintaining their custody. She is also responsible for selling bags and permits; receiving, recording and depositing moneys; reporting these sales to the Board each month; and reconciling her bank statements. Because of the Clerk's complete control over the duties related to the garbage bags and permits, we attempted to reconcile the purchase, sale, and current inventory of both garbage bags and permits.

Town officials have not implemented policies and procedures regarding the sale of garbage bags and permits. The Clerk maintains a manual daily list of each garbage bag sale and then enters the total garbage bag sales into her financial system each day. However, the Clerk does not maintain an inventory of garbage bags and, therefore, we could not reconcile her inventory and sales because we did not have a starting inventory number of bags to reconcile from. Due to this lack of accountability, we could not determine if all moneys received for garbage bag sales were recorded and deposited. The Board does not require her to maintain an inventory, nor have they attempted to reconcile the purchase, sale, and inventory of garbage bags at their annual audit. Further, we could not determine the number of bags she purchased for resale during our audit period. In October 2009 and 2010, the Town paid claims for garbage bag

⁸ These resident permits allow access to the Town transfer station.

purchases from the same vendor. The 2010 claim indicated the Clerk purchased 8,000 garbage bags. However, the 2009 claim did not include an itemized invoice of the goods purchased so we could not determine how many bags were purchased. As a result, we could not determine the number of bags available for resale during our audit period. At the time of our inventory count, the Clerk had 2,139 bags on hand, but there were no Town records available for comparison to this inventory number.

The Clerk maintains a record of permits in her computerized financial system. We compared permit issuance reports to permits on hand, and determined that she issued 332 permits.⁹ At the time of our review, her records only accounted for 321 permits, 11 short of the permits issued during the audit period. The Clerk was not sure why permits were missing or unrecorded.

Town officials' failure to establish policies and procedures for garbage bag and permit sales and to maintain inventory records could result in errors and irregularities in the accounting for sales going undetected and uncorrected.

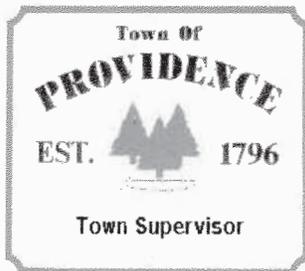
Recommendations

10. Town officials should develop and implement policies and procedures for the sale of garbage bags and permits.
11. The Clerk should maintain an inventory of garbage bags and permits and reconcile the physical quantity on hand to the inventory record periodically.

⁹ This amount includes permits sold or provided free to volunteer fire and ambulance personnel.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



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February 7, 2012

Office of the State Comptroller
110 State St. 15th Floor
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Attn: Jeff Leonard, Chief Examiner

This letter is in response to our preliminary draft audit report and your response to my letters (2) and verbal correspondence in 2010 requesting that our Town be audited due to concerns that I had as the new Supervisor. On behalf of myself, the Town Clerk and the Town Board we appreciate your recommendations and concur corrective action is needed per your audit report.

As we move forward to take the necessary corrective action it is our intention at this time to create a New Company within our current [REDACTED] Software; therefore giving me the opportunity and capability to produce improved financial reports, accurately state the fund balances and be able to close the general ledger accounts at the end of each fiscal year.

In the coming weeks we will be formulating a corrective action plan to be submitted within 90 days for your inspection.

On behalf of myself, and the other Town Officials we wish to thank you for your co-operation, recommendations and suggestions regarding this audit, and we look forward to receiving the final audit report.

Sincerely yours,

John L. Collyer
Town of Providence Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. 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, 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 the Supervisor's records and reports, Board oversight, and the Clerk's records for further audit testing.

To assess the effectiveness of the Board's fiscal oversight, we interviewed Town officials, reviewed Board minutes, and performed the following audit procedures:

- We inspected the printed general ledger, bank reconciliations, and abstracts (lists of approved claims) to determine if internal controls had been established over the maintenance of the accounting records and to determine if suspicious or questionable payments had been made.
- We reviewed Supervisor reports provided to the Board to determine if they provided an accurate picture of the Town's financial status.
- We interviewed Town officials and reviewed budgets, the Clerk's budget reports provided to the Board, and Board minutes to assess the Board's oversight of the budget.
- We reviewed the 2010 and 2011 budgets with the Supervisor and Clerk, and discussed the budget process and how the Board predicts/estimates fund balance for year end, uses the interfund revenue account, and appropriates fund balance.
- To determine if the Board properly authorized and officials recorded budget adjustments, we compared budget adjustments maintained by the Clerk to Board minutes to determine if they match, and if the Board appropriately executed budget adjustments.
- We selected a nonbiased judgmental sample of 10 budget adjustments totaling \$95,171 from 2010 and 2011. We took the Clerk's budget status report, randomly selected a starting number, and selected 10 transactions. Because of the four to one ratio of budget adjustments from 2010 to 2011, we tested (more) eight adjustments in 2010 and (less) two adjustments in 2011.

- We reviewed the procedures used by the Town to process claims, and reviewed claims, abstracts, bank statements and supporting documentation to determine if claims were adequately documented and legitimate.
- We selected a nonbiased random sample of 30 claims by randomly choosing months in our audit period and testing claims in the order they appeared on the general and highway fund abstracts. Ten claims were debit card claims, 10 were general fund, and 10 were highway fund. We then selected a biased judgmental sample of 10 additional claims based on the results of the first sample test, our professional judgment, and specific risks identified during the course of the audit through observation of claims, records, Board minutes and interviews with officials.
- We interviewed local officials, reviewed Board minutes, and reviewed documents provided by the Clerk and Supervisor for the Town audit to assess the adequacy of the Board's annual audit of the Clerk's and Supervisor's records.
- We took a physical count of on-hand garbage bags in the Clerk's office and compared it to her records for garbage bag sales amounts, monthly reports of garbage bag sales, and purchases during the audit period, and attempted to compare it to the last inventory of garbage bags. We counted resident transfer station permits on hand and compared it to Clerk reports on resident permits for the period 10/1/10 to 9/23/11. Because the Clerk starts selling resident permits before the beginning of the year, we tested the sale and accounting for 2011 permits (sold in 2010 and 2011).

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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