



Town of Taghkanic

Internal Controls Over Cash Disbursements and Online Banking

Report of Examination

Period Covered:

January 1, 2010 — June 28, 2011

2012M-25



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 Taghkanic, entitled Internal Controls Over Cash Disbursements 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 Taghkanic (Town) is located in Columbia County. The Town Board (Board), including the Town Supervisor (Supervisor), is the legislative body responsible for managing Town operations. The Supervisor serves as the Town's chief fiscal officer, and is responsible for the receipt, disbursement, and custody of Town moneys. The Town's budgeted appropriations for the 2011 fiscal year were approximately \$1.15 million.

Scope and Objective

The objective of our audit was to examine internal controls over cash disbursements and online banking for the period January 1, 2010 through June 28, 2011. Our audit addressed the following related questions:

- Are internal controls over cash disbursements appropriately designed and operating effectively to safeguard Town assets?
- Has the Town established adequate controls over online banking transactions?

Audit Results

The Town's internal controls over cash disbursements were not appropriately designed or operating effectively. There are no written Board policies or procedures for cash disbursements. The Supervisor was using a signature stamp to sign Town checks and a Board member (who was not the appointed Deputy Supervisor) was an authorized signer on the Town's bank accounts. Significant weaknesses also exist with disbursements (including checks and electronic fund transfers) not being properly authorized or supported by sufficient documentation. As a result, Town officials do not have adequate assurances that disbursements are made by the appropriate Town officials, properly authorized, supported by sufficient documentation, and disbursed for legitimate Town purposes.

Our audit also found that the Town has not established adequate controls over online banking transactions. A significant segregation of duties weakness exists with the current electronic fund transfer process. The Town's bookkeeper (a non-Town employee) was able to enroll the Town in online banking and perform all of the online banking transactions during the audit period without any documented oversight. Supporting documentation for electronic fund transfers was lacking, and there was no written indication of who made electronic fund transfers or whether electronic fund transfers were ever reviewed. No one other than the Town Supervisor receives electronic fund transfer records and no one reconciles them to the monthly bank statements except for the bookkeeper. As the

bookkeeper initiated the electronic fund transfers, there is no oversight to verify the propriety of the transfers. These weaknesses place Town assets at a significant risk of loss or misuse.

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 findings and recommendations and indicated they plan to initiate corrective action.

Introduction

Background

The Town of Taghkanic (Town) is located in Columbia County and has a population of about 1,100. The Town provides various services to its residents including general government support, street maintenance and improvements, snow removal, and code enforcement. The Town has 24 employees¹ and its expenditures are generally accounted for in the general and highway funds. The Town's budgeted appropriations for the 2011 fiscal year were approximately \$1.15 million, funded primarily with real property taxes, sales tax, fines and forfeitures, departmental income (e.g., building permits, clerk fees, zoning fees, etc.), and State aid.

The Town Board (Board), composed of four Board members and the Town Supervisor (Supervisor), is the legislative body responsible for managing Town operations, including establishing effective internal controls over cash disbursements and online banking. The Supervisor serves as the Town's chief fiscal officer and has custody of, and receives and disburses, Town moneys. Although the Board is primarily responsible for the effectiveness and proper functioning of internal controls, the Supervisor and department heads share this responsibility.

Objective

The objective of our audit was to examine internal controls over cash disbursements and online banking. Our audit addressed the following related questions:

- Are internal controls over cash disbursements appropriately designed and operating effectively to safeguard Town assets?
- Has the Town established adequate controls over online banking transactions?

Scope and Methodology

We examined the Town's internal controls over cash disbursements and online banking for the period January 1, 2010 through June 28, 2011.

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.

¹ This number includes all part-time and full-time officials and employees.

**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 findings and recommendations and indicated they plan to initiate corrective action.

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

Cash Disbursements

The Supervisor, as the chief fiscal officer, is responsible for the disbursement of Town moneys. Town Law allows the Supervisor to hand-sign Town checks or use a facsimile signature, affixed by a check signer or other machine, under his/her supervision. In the Supervisor's absence or if the Supervisor is incapable to act, the Deputy Supervisor is the only other Town official allowed by Town Law to sign checks.

Town Law also requires the Board to audit all claims prior to payment² to ensure that the underlying disbursements are properly authorized, are supported by sufficient documentation, and are for goods/services actually received by or rendered to the Town. After this audit is conducted, the Town Clerk (Clerk) should record the claim numbers and the amounts approved to be paid in the official Board minutes. Town Law requires the Clerk to prepare and present a certified abstract of audited claims to the Supervisor authorizing and directing the Supervisor to pay the claimants the amounts approved by the Board. The Supervisor should ensure that no disbursements are made unless they are approved for payment by the Board.³

Additionally, an effective internal control system over payroll-related disbursements requires supervisory approval, or certification, of the completed payroll prior to issuing employee paychecks. A Town official should examine the payroll and certify that the persons included have worked the hours claimed and are paid at Board-approved rates for their services. Town Law requires that Town officials having direct supervision over employees to certify or, if required by Board resolution, verify that services indicated on the payrolls were actually performed. In addition, the Supervisor should ensure that no disbursements for payroll occur without a department head's certification of the completed payroll. The absence of payroll certification increases the risk of improper payments being made to employees for personal services.

We found that the Supervisor was using a signature stamp to sign Town checks. Town Law does not provide for the use of a signature stamp since they can be easily replicated. The Supervisor told us that during two absences in 2010, she gave the Clerk the signature stamp to use to keep the business processes flowing while she was away. The

² Exceptions to the prior audit requirement include payments for public utility services, postage, freight and express charges.

³ Exceptions include compensation paid to officers and employees, and payments for debt service and certain contracts exceeding one year.

Supervisor was not aware that a signature stamp is not permissible and has since discontinued the practice of signing Town checks with the signature stamp. Additionally, a Board member, who was not the appointed Deputy Supervisor, was an authorized signer on the Town's general bank account, the trust and agency bank account, and the general money market bank account. According to the Supervisor, this was done in order to have an alternate signer on these accounts.⁴

We reviewed a sample of 70 canceled checks⁵ totaling \$266,295, as well as the corresponding claim vouchers, abstracts, and payroll registers. Our review determined the following:

- There was no claim voucher, nor evidence of Board audit for a payment made to an automotive dealership for \$70,100. While this payment was listed on the November 3, 2010 abstract as the amount due to an automotive dealership for a dump truck, a claim voucher number was not assigned nor was there evidence in the November 3, 2010 Board minutes that this payment had been audited and approved by the Board.
- Twenty-three claim vouchers did not have evidence of receipt of goods/services totaling \$60,463. For example, there was no written indication that \$13,280 of road materials and \$9,951 of fuel were received by the Town.
- Six claim vouchers totaling \$58,832 were either not approved by a department head or were not approved by the proper department head. For example, the department head approval section of the claim vouchers for the Town's 2010 insurance (totaling \$19,942) and the Town's 2011 insurance (totaling \$17,970) were signed by the Clerk and not the Supervisor.
- Fifteen claim vouchers did not have original invoices/bills attached for \$34,569 of goods/services. For example, two claim vouchers had faxed invoices totaling \$4,003 attached for various legal services rendered for the Town Board and Zoning Board of Appeals.
- Four payments totaling \$26,000 were made for services not yet rendered to the Town. Two payments totaling \$24,000 were for the prepayment of assessment services and two payments totaling \$2,000 were for accounting services not yet fully performed.

⁴ We did not see any canceled checks in either of our test samples that were signed by the Board member.

⁵ Nineteen payroll checks and 51 accounts payable checks. See Appendix B Audit Methodology and Standards for more information on the sample selection.

- Four canceled payroll checks totaling \$5,103 either had a check date prior to the date of the payroll certification, the payroll certification was not signed by the appropriate Town official, or the Town official's signature on the payroll certification was not dated.
- Five canceled checks totaling \$3,740 either had a check date prior to the date of the Board approved abstract, were not listed on a Board approved abstract, or had a payee on the canceled check that differed from the payee on the Board approved abstract and corresponding claim voucher.⁶ Two payments were to a health insurance provider and a local automotive store for various items (vehicle parts, antifreeze, wiper blades, etc.).
- Six payments totaling \$3,100 were made that had no evidence of an actual Board audit.

These weaknesses stem from a lack of written Board policies and procedures for cash disbursements. Without written policies and procedures, coupled with the use of a signature stamp, and an improper signer on the Town's bank accounts, Town officials do not have adequate assurances that disbursements are made by the appropriate Town officials, properly authorized, supported by sufficient documentation, and disbursed for legitimate Town purposes.

Recommendations

1. The Board should establish written policies and procedures for cash disbursements, to help ensure that all Town moneys are safeguarded and used as intended.
2. The Supervisor should continue hand-signing all Town checks or use a facsimile signature, affixed by a check signer or other machine, under her supervision.
3. The Supervisor should remove the Board member as an authorized signer on the Town's bank accounts.
4. The Board should audit all claims prior to payment (aside from the few limited exceptions) and should ensure that the underlying disbursements are properly authorized, are supported by sufficient documentation, and are for goods/services actually received or rendered.

⁶ The payee on the canceled check is an individual who works for the Town's bookkeeper; however, the payee on the Board approved abstract and corresponding claim voucher is the bookkeeper.

5. The Supervisor should ensure that no disbursements for claims are made unless they are approved for payment on a signed and dated abstract. No disbursements for payroll should occur without a department head's certification of the completed payroll register.

Online Banking

Online banking allows the convenience of moving money between bank accounts and to external accounts, reviewing transaction histories, reconciling accounts in real time, and monitoring cash balances. General Municipal Law (GML) allows local governments to disburse or transfer funds in their custody by means of electronic transfer, which includes intra-bank transfers (between accounts within the same bank) and inter-bank, or wire, transfers (between banks). Because electronic transfers typically involve significant amounts of money, it is important for the Town to have formal policies and procedures in place to limit the individuals authorized to make electronic transfers, and which require all transfer instructions to be approved prior to execution and independently confirmed after transfer. Additionally, GML requires the Town to enter into an agreement with its financial institutions that provide online banking services, detailing the authorizations required and the accounts involved. Lastly, the duties of modifying bank accounts and performing electronic transfers should not be assigned to the same person.

The Town has not established adequate controls over online banking transactions. The Board has not established a written policy and procedures for online banking transactions. The Town does not have a signed online banking agreement with the bank it performs online banking with. Significant weaknesses exist because disbursements made by electronic fund transfers are not properly authorized or supported by sufficient documentation. Additionally, there was no written indication of who made electronic fund transfers or whether electronic fund transfers were ever reviewed. Finally, a significant segregation of duties weakness exists with the current electronic fund transfer process. As a result, these weaknesses create an environment where there is a risk that error, fraud, abuse or misuse of Town moneys could occur and not be detected in a timely manner by Town officials.

Policy and Procedures

The Board should establish a comprehensive online banking policy that clearly describes what online banking activities the Town will engage in and which Town employees will have the authority to perform them. The policy should identify Town employees who will be given read-only access, establish a detailed approval process designed to verify the accuracy and legitimacy of online transfer requests and require a monthly report of all online banking transactions that occurred during the period. Related control procedures should also provide for the review and reconciliation of this report with the monthly bank statement, by someone independent of the process, to

verify that all transactions were properly approved and appropriate. Additionally, the Board is responsible for ensuring individuals that handle Town moneys are sufficiently covered by the Town's insurance policy in the event of a dishonest act or other unfaithful performance of duties.

The Board has not established a written policy and procedures for online banking transactions. Consequently, the Town's bookkeeper (a non-Town employee) was able to enroll the Town in online banking services and perform all of the online banking transactions during the audit period without any documented oversight. Although the informal process was for the bookkeeper to provide the Supervisor with confirmations for the electronic fund transfers after they were made, our review of the supporting documentation for the electronic fund transfers revealed that adequate supporting documentation was lacking. Moreover, no other Town official receives these records and the only one who reconciles them to the monthly bank statements is the bookkeeper. Since the bookkeeper initiated the electronic fund transfers, there is no oversight to verify the propriety of the transfers. As a result, there is an increased risk of unauthorized transfers which could allow the potential misuse of funds.

The Town's contracts with the bookkeeper did not include online banking as a service to be performed, nor did the contracts address the confidentiality of Town information or any technology-based requirements/controls for the bookkeeper's computers. Town assets are placed at a significant risk of loss or misuse when the issues of confidentiality of Town information and technology-based requirements/controls are not addressed with the parties who have access to the Town's sensitive information.

As a result of this current arrangement, we also reviewed the Town's 2010 and 2011 insurance policies to determine if the bookkeeper was covered by the Town's insurance policy in the event of a dishonest act or unfaithful performance of duties. We found no coverage for theft of Town assets by a non-Town employee, which would include the bookkeeper. If a dishonest act or other unfaithful performance of duties by the bookkeeper were to occur, the Town's assets would not be adequately protected.

Written Agreement

GML requires an online banking agreement that identifies the manner in which electronic fund transfers of funds will be accomplished, the names and numbers of the bank accounts from which electronic fund transfers may be made, and the individuals who are authorized to request an electronic fund transfer of funds. According to the New York State Uniform Commercial Code, online banking agreements also must implement a security procedure between the bank and the

Town to verify that the payment order is initiated by the Town and to detect errors in the transmission of funds or in the content of the payment order. The security procedure often is implemented through a callback provision that requires the bank to call an individual – other than the person initiating the transaction – to confirm the appropriateness of the transfer.

The Town does not have a signed online banking agreement with the bank it performs online banking with. To more fully protect the Town's resources, the Town should have a signed online banking agreement between itself and the bank it performs online banking with. The Town's agreement should place limits on the transactions that can be made (e.g., prohibiting transfers overseas and dollar thresholds). In addition, a letter from the Town's bank indicated that the bookkeeper enrolled the Town in Internet banking in July 2006. The Town's failure to have a signed online banking agreement with the bank omits an important level of control that would provide additional security over online banking and electronic fund transfer activities.

Electronic Fund Transfers

Cash disbursements made through electronic fund transfers⁷ often involve significant amounts of money, can be made with relative ease, and leave less tangible evidence (for example, there are no canceled checks) as proof of the transaction. Poor controls increase the risk that an entity may become the victim of fraud and experience financial losses that may not be recoverable. Therefore, it is essential that internal controls, including written policies and procedures over these transactions, be in place. Adequate documentation supporting each and every electronic fund transfer is a necessity. This documentation should include authorization for the electronic fund transfer (prior to the electronic fund transfer actually being initiated), identification of the individual initiating the electronic fund transfer, confirmation that the electronic fund transfer has actually been initiated (e.g., confirmation page, email, or receipt), and evidence that a review of the electronic fund transfer occurred after it was executed.

Segregation of duties is important in almost any business function, but is critical for electronic fund transfers. Without a proper segregation of duties, the risk increases that one person could be in a position both to commit a wrongdoing and to conceal it. At least two individuals should be involved in each electronic fund transfer. The authorization and transmitting functions should be segregated and the recording function should also be delegated to someone who does not have either approval or transmitting duties. Generally, the same controls

⁷ Electronic fund transfers include both internal transfers between Town accounts at the same bank and external transfers (disbursements) to non-Town accounts.

should be used for electronic fund transfers as apply to the manual preparation of checks.

The Town routinely makes electronic fund transfers involving significant amounts of money. These transfers are generally internal transfers from one Town bank account to another. However, electronic fund transfers are also made for Federal payroll taxes⁸ and to the New York State and Local Retirement System for retirement contributions for officials and employees.⁹ The Supervisor told us that she does not perform any electronic fund transfers but verbally approves¹⁰ the transfers as requested by the bookkeeper¹¹ to cover the Town's bills and payroll. These verbal approvals (i.e., accounts from which money is moved to/from, the amount of money moved, and the date of the transfers) are not documented by the Supervisor. After the transfers have been completed, the bookkeeper provides the Supervisor with a transfer confirmation sheet showing when the transfers were made and the amount of money moved to/from which Town accounts. We also were provided with a letter from the Town's bank stating that the bookkeeper only has the ability to transfer Town moneys between the Town's three accounts.¹²

This process creates an inadequate segregation of duties. The bookkeeper should not be allowed to make electronic fund transfers because in addition to being able to initiate electronic fund transfers, the bookkeeper is also responsible for recording the transfers in the accounting records and preparing bank reconciliations. Town officials were unaware that this constitutes a poor segregation of duties over electronic fund transfers and that this lack of segregation of duties could potentially result in an improper transfer of Town funds. We selected 35 electronic fund transfers¹³ totaling \$1,153,441 and reviewed the corresponding supporting documentation. Our review revealed the following:

⁸ The Supervisor told us that the bookkeeper is responsible for performing the electronic fund transfers for Federal payroll taxes.

⁹ Retirement contributions are automatically withdrawn (debited) from the Town's trust and agency account by the New York State and Local Retirement System.

¹⁰ This verbal approval was the process for most of our audit period; however, we were informed by the Supervisor that this process was changed in May 2011. According to the Supervisor, the Town's bookkeeper implemented a new form requiring her signature indicating her review, approval, and confirmation of electronic fund transfers.

¹¹ The Town contracts with an outside third-party (bookkeeper) to provide various bookkeeping and recordkeeping services for the Town, including the preparation of all Town checks and recording these checks in the accounting records.

¹² The general bank account, the trust and agency bank account, and the general money market bank account.

¹³ See Appendix B Audit Methodology and Standards for more information on the sample selection.

- There was no written indication of who initiated 31 electronic fund transfers totaling \$1,130,646.
- There was no written evidence of the review of 32 electronic fund transfers totaling \$1,100,357.
- There was no written evidence of authorization for 29 electronic fund transfers totaling \$1,098,867. Also, while two internal electronic fund transfers totaling \$31,779 had written evidence of authorization, this authorization was documented after the electronic fund transfers were made.
- There were no transfer confirmation pages, emails, or receipts to support 13 electronic fund transfers totaling \$107,442.

While all electronic fund transfers were for legitimate Town purposes, the weaknesses we identified (including the lack of written Board policies and procedures for cash disbursements) create an environment where there is a significant risk that fraud, abuse or misuse of Town moneys could occur and not be detected in a timely manner by Town officials.

Recommendations

6. The Board should establish a comprehensive written online banking policy and should require a monthly report of all online banking transactions that have occurred during the period. Procedures should also be established providing for the review and reconciliation of this report with the monthly bank statement by someone independent of the process to verify that all transactions were properly approved and appropriate.
7. The Town's contract with the bookkeeper should identify all the services to be performed and provide for a clear understanding of each party's roles and responsibilities. Additionally, Town officials should ensure that the confidentiality of Town information is addressed, including establishing any technology-based requirements/controls.
8. The Board should ensure that all individuals whose duties involve handling Town moneys are sufficiently covered by the Town's insurance policy in the event of a dishonest act or other unfaithful performance of duties.
9. Town officials should ensure that there is a signed online banking agreement between the Town and the bank it performs online banking with. This agreement should address electronic fund transfers and it should include a security procedure for verifying transfers.

10. The practice of the bookkeeper executing the electronic fund transfers should be discontinued. At least two individuals should be involved in each electronic fund transfer. The authorization and transmitting functions should be segregated and the recording function should be delegated to someone who does not have either approval or transmitting duties.
11. Town officials should ensure that there is adequate documentation supporting each electronic fund transfer.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF TAGHKANIC

977 LIVINGSTON ROAD
ELIZAVILLE, N.Y. 12523

ELIZABETH L. YOUNG
Supervisor

CHERYL ROGERS
Town Clerk

THOMAS YOUHAS
Highway Superintendent

May 14, 2012

Office of the State Comptroller
Christopher J. Ellis, Chief Examiner
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Mr. Ellis:

On behalf of the Town of Taghkanic I wish to thank you for authorizing this audit on my request of our "Internal Controls Over Cash Disbursements and Online Banking". It was a pleasure working with [REDACTED]

Upon review of the draft Report of Examination 2012 M-25 for the period from January 1, 1010 to June 28, 2011, and consideration of the exit interviews with members of the Town Board, there is board agreement with the twelve (12) specific issues and the eleven (11) recommendations.

Beginning in January 2012 we instituted many changes with a new Accountant and new Bookkeeper to establish proper separation of duties. We continue to work with them to write new policies that address the audit recommendations and will detail this work in our Corrective Action Plan. We are disappointed, however, in the limited period of this audit. While it is understood that your staffing is limited, it would seem reasonable to cover at least 24 months that include two years of how year-end payments were handled.

Finally, because the Office of the State Comptroller does not allow this draft document to be made public, the Town Board is placed in an extremely awkward position relative to the Open Meetings Law. This is especially true when considering the February 2012 addition to that law. Executive Session is not an option and the board needs to discuss the required response letter in an open meeting to reach consensus on the best representation of our position. The public has no way to understand that position until after the fact. This appears to us to be a direct violation of Open Meetings Law.

RICHARD SKODA
Councilperson

DEBORA GILBERT
Councilperson

LAWRENCE KADISH
Councilperson

JOYCE THOMPSON
Councilperson

TOWN OF TAGHKANIC

977 LIVINGSTON ROAD
ELIZAVILLE, N.Y. 12523

ELIZABETH L. YOUNG
Supervisor

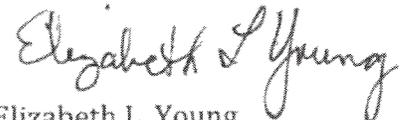
CHERYL ROGERS
Town Clerk

THOMAS YOUHAS
Highway Superintendent

However, to be more specific; since the refund for overpayment of 2009 insurance came in 2011, I would argue that the Dec. 2008 and especially the Feb 2009 abstracts dealing with these payments are pertinent and raise question re correct numbering of checks and correct invoices and correct processes for payments. These are the types of issues I would expect a State audit to focus on, even if the time periods are blurry.

If you have any further concerns for the town or questions about this letter, please feel free to contact me.

Respectfully submitted,



Elizabeth L. Young
Supervisor

RICHARD SKODA
Councilperson

DEBORA GILBERT
Councilperson

LAWRENCE KADISH
Councilperson

JOYCE THOMPSON
Councilperson

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 condition, control environment, cash management, purchasing, payroll and personal services, cash receipts and disbursements, and information technology.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents such as Town policies and procedures, Board minutes, and financial records and reports. In addition, we obtained information directly from computerized financial records and then analyzed this information using computer-assisted techniques. Further, we reviewed the Town's internal controls and procedures over computerized financial records to determine whether the information produced by these systems was reliable.

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 objective and scope by selecting for audit those areas most at risk. We selected cash disbursements and online banking.

To accomplish the objective of our audit for the period January 1, 2010 to June 28, 2011, our procedures included the following steps:

- We interviewed Town officials to obtain an understanding of Town operations, identify key personnel, and gain an understanding of policies and procedures relative to our audit objective.
- We reviewed the minutes of the Board's proceedings for the audit period.
- We requested from the Town's bank for the audit period all bank statements, withdrawal slips, and canceled checks for the Town's general account, trust and agency account, and general money market account; all electronic fund transfer requests and confirmations for the above listed accounts; all written agreements between the bank and the Town that were in effect; and all correspondence between the Town and the bank regarding access to the Town's accounts (e.g., permitting individuals access to the accounts whether via online or in person, etc.) that were in effect.
- We reviewed the Town's canceled checks for the audit period. We selected a non-biased sample of canceled checks (39 canceled checks) and examined the corresponding claim vouchers and payroll registers for sufficient supporting documentation (original invoice/bills, evidence of receipt of goods/services, department head approval, etc.). As a result of weaknesses identified in this sample, we judgmentally selected another sample of canceled checks (31 canceled checks) and also examined the corresponding claim vouchers and payroll registers for sufficient

supporting documentation. We also reviewed the approved abstracts that corresponded to the canceled checks in both of the aforementioned samples.

- We selected a non-biased sample of 35 electronic fund transfers (both internal electronic fund transfers and external electronic fund transfers), which occurred during our audit period, to determine who made the electronic fund transfers and whether these electronic fund transfers were authorized, documented, reviewed, and were for legitimate Town purposes.
- We reviewed the 2010 and 2011 contracts with the bookkeeper to determine if the contract outlined the online banking services to be performed; addressed the confidentiality of Town information (e.g., bank account numbers); and outlined technology-based requirements/controls (e.g., up-to-date virus protection, up-to-date patches) on the bookkeeper's computers.
- We reviewed the Town's insurance coverage for theft of Town assets by a non-Town employee (such as the bookkeeper) to determine if coverage would be sufficient to cover the Town's losses as a result of a dishonest act or other unfaithful performance of duties by the third-party.
- We contacted a Branch Manager from the Town's bank to obtain answers to specific online banking and internal/external electronic fund transfer questions that we had. We also visited the bank's website and reviewed the Internet banking agreement listed on the bank's website for the type of banking the Town is enrolled in.

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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DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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