



# Town of Unadilla

## Financial Operations

### Report of Examination

Period Covered:

January 1, 2011 — June 12, 2012

2012M-182



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
<b>FINANCIAL OPERATIONS</b>	5
Recommendations	7
<b>APPENDIX A</b> Response From Local Officials	9
<b>APPENDIX B</b> Audit Methodology and Standards	11
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	13
<b>APPENDIX D</b> Local Regional Office Listing	14

# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

December 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 Unadilla, 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*

# Introduction

## **Background**

The Town of Unadilla (Town) is located in Otsego County and has a population of 4,392 residents. The Town is governed by a Town Board (Board) comprising the elected Town Supervisor (Supervisor) and four elected Board members. The Board is the legislative body that is responsible for managing and controlling Town operations. The Town provides various services to its residents such as sewage treatment, street maintenance and improvements, snow removal, recreational services, and general governmental support. The Town's 2012 budgeted appropriations were approximately \$1.4 million, funded primarily with real property taxes, State aid, and user fees.

As the chief fiscal officer, the Supervisor is responsible for performing basic accounting functions including maintaining accounting records and providing monthly financial reports to the Board. In January 2012 the Board appointed a new Supervisor after the former Supervisor's death in December 2011. The Town employs a bookkeeper to assist in recording all Town activities. The former bookkeeper resigned in December 2011, after which the new Supervisor hired a new bookkeeper.

## **Objective**

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

- Did the Board and Supervisor address the deficiencies in the financial operations of the Supervisor's office?

## **Scope and Methodology**

We examined various financial records of the Town of Unadilla for the period January 1, 2011 through June 12, 2012. We expanded our scope back to December 2010 to review certain general ledger cash account adjustments.

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 agree with our findings and recommendations, and indicated they will 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 Operations

The Board is responsible for the overall financial management of the Town's operations, while the Supervisor is primarily responsible for managing and recording the Town's day-to-day financial activities. The accounting records and reports must be complete, accurate, and current to be relevant and useful for managing Town operations. In addition, the Supervisor should only disburse funds to vendors only after the Board approves those payments following a thorough audit based on fully supported vouchers. The Supervisor should ensure all Town bank accounts are reconciled to their respective cash accounts in the accounting records. The Supervisor is also responsible for ensuring that all supporting accounting records and reports are provided to the Board for audit on an annual basis to fulfill the Board's statutory requirement to provide for an audit of the Supervisor's records and reports.

While internal control deficiencies existed during our audit period, the Board and Supervisor have corrected many of these deficiencies in the Town's financial operations. However, control weaknesses still remain in the oversight of the accounting functions handled by the bookkeeper. As a result, Town assets remain at risk of loss or misuse.

Disbursements – The former bookkeeper opened the mail, assembled voucher packages, printed the checks, and prepared the warrant of claims. The warrant and vouchers were then submitted to the Board for review and approval for payment. However, the former Supervisor pre-signed blank numbered checks for the former bookkeeper to pay claims. As a result, there is increased opportunity to initiate improper payments and conceal such transactions.

Due to this control weakness, we reviewed all warrants (comprising 930 disbursements) during our audit period and examined the 55 check numbers not listed on the warrants to determine if the check cleared the bank and was for a proper Town purpose or voided. We found the following:

- Thirty-eight check numbers<sup>1</sup> were not accounted for and could not be located. These checks were not listed on the warrants, did not clear the bank, and were not voided. The Deputy Town Clerk told us that after the former bookkeeper resigned, any

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<sup>1</sup> Within the 38 check numbers, a series of 21 consecutive check numbers was from the sewer fund account and a series of 13 consecutive check numbers was from the highway fund account.

unused pre-signed checks were shredded; however, the Town had no record of these checks.

- Seventeen checks totaling over \$28,000 that cleared the bank were not approved by the Board. These disbursements appeared to be for proper Town purposes and included payments for such things as highway equipment repairs (\$12,800), highway supplies (\$9,100), and legal services (\$3,000).
- Eight of the 17 checks, totaling approximately \$1,300, were paid without any supporting documentation.

The current Supervisor told us he discontinued the practice of pre-signing checks when he took office in January 2012.

Accounting Records – We reviewed the 28 cash account balances reported to the Board during January and November of 2011 and found that 10 of them did not match the cash account balances recorded in the accounting records. For example, as of January 31, 2011, the amount of cash recorded in the accounting records was \$364,000 more than the amount available as shown on the January 31, 2011 bank reconciliations. At the end of November 2011, the amount of cash recorded in the accounting records was still over \$15,000 more than the actual amount shown on the November 2011 bank reconciliations. These balances did not agree because the former bookkeeper did not record multiple transactions in the accounting records and, instead of correcting the individual errors, made large adjustments to the accounting records to bring the accounts into agreement with the adjusted bank balances.<sup>2</sup>

The former bookkeeper made 18 general ledger entries to several Town fund accounts, totaling over \$406,000, during 2011. One of these entries, made in February 2011 and totaling more than \$365,000, was a balance adjustment decreasing cash. The former bookkeeper told us she did not know how to account for voided transactions in the accounting software and that, to perform an accurate bank reconciliation, she made a one-time adjustment to the cash account to reflect the voided transactions. Our review of the February 2011 bank statement and reconciliation disclosed no material discrepancies and the former bookkeeper's entry appeared to accurately reflect a combined sum of prior transactions that were not recorded in a timely manner. Nonetheless, these improper accounting practices produced erroneous cash balances that precluded proper bank reconciliations and caused the Town to incur fines and penalties.

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<sup>2</sup> The adjusted bank balances are balances per the bank statement less outstanding checks, plus deposits in transit.

During June 2011, the Trust and Agency fund was assessed about \$3,400 in overdraft/insufficient funds charges. Additionally, the Town incurred over \$1,300 in penalties and interest for late payment of Federal payroll withholding taxes; in 11 instances the former bookkeeper underpaid Federal payroll withholding taxes by about \$222. Further, we found no evidence that any of these penalty payments were presented to the Board for approval.

These errors occurred because the former bookkeeper was responsible for performing all the Town's day-to-day financial functions without any oversight. Moreover, the Board did not audit the Supervisor's records for 2011.

In January 2012, the Board reassigned many of the new bookkeeper's duties. For example, the Town Clerk began preparing the claims packets and warrants for the Board's audit and approval. The Supervisor now signs each check after the claims are approved. Our review of the April 2012 bank reconciliations found that the current bookkeeper properly balanced the cash balances recorded in the accounting records with the adjusted bank balances after correcting many of the former bookkeeper's errors. For example, the current bookkeeper made correcting entries to the 2011 accounting records totaling \$2,128 to eliminate duplicate accounting entries.

While we commend the Board and Supervisor for taking steps to improve the financial operations as well as reduce the significant risks that existed, control weaknesses still exist. The current bookkeeper has control of the check stock and is still responsible for printing all checks, processing payrolls, and preparing the monthly bank reconciliations. When these duties are performed by one individual, there is an increased opportunity for checks to be written for improper purposes without detection.

## **Recommendations**

1. The Supervisor should continue to monitor the bank statements and reconciliations and, in the event that any of the missing checks clear the bank, ensure that they are properly accounted for.
2. The Supervisor should continue to ensure the new bookkeeper enters all transactions in the accounting records accurately and in a timely manner.
3. The Board should segregate the duties of printing checks, processing payroll, and preparing monthly bank reconciliations, or institute compensating controls such as supervisory review of the bank statements and canceled checks.

4. The Board should audit the Supervisor's financial records annually.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

**Town of Unadilla**  
**1648 St. Hwy. 7, PO Box 455**  
**Unadilla NY 13849**  
**PH: (607) 369-4433; Fax: (607-369-3217)**

December 4, 2012

Mr. H. Todd Eames  
Chief Examiner  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

Dear Mr. Eames:

This letter is in response to a recent audit done by your Department for the Town of Unadilla, Otsego County.

I would like to thank you and your staff for the time and effort put into this audit. I understand that the condition of the records left by our previous bookkeeper presented a very difficult task.

The Town Board agrees with the findings of the auditors and has made, and will continue to make, changes that reflect best accounting practices.

As Town Supervisor, I will continue to monitor the bank statements and reconciliation statements. Our new bank (NBT) will now be providing copies of the actual checks that have cleared with the monthly statements. This was not done before.

Our current bookkeeper is quite fastidious about being on time with her reports and filings. We believe Ms. Rideout is, and will continue to be, much more professional and transparent with her bookkeeping practices than the previous bookkeeper. The Town Board will monitor her activities carefully.

The Town Clerk and her Deputy prepare the vouchers. These are then reviewed and signed by all attending Board members. The signed vouchers are then picked up by the bookkeeper to enter them into the computer program under the appropriate accounts and to print the checks. The printed checks are returned with the vouchers to my office for my signature. I review each voucher/check, making sure that all information matches. When the bank statements arrive the bookkeeper does the monthly reconciliation and presents her full report to the board for approval. All checks and vouchers are in numerical order and are accounted for. The only persons authorized to sign checks are myself or the Deputy Superintendent ( in my absence ).

I will continue to monitor the check and voucher sequences and the new bank statements to insure there is no duplication or misappropriation of funds.

The Board will audit my records at the end of the year and submit a statement that they did so for the public record.

If there are any other changes you would like us to implement please let us know.

Again, I thank you and your staff for your assistance during this difficult transition.

Respectfully yours,

Greg Relic  
Unadilla Town Supervisor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

We assessed the financial operation of the Town of Unadilla for the period of January 1, 2011 through June 12, 2012. To accomplish our audit objective and obtain valid and relevant audit evidence, we interviewed appropriate Town officials and tested selected records and transactions, examined pertinent documents, and performed the following procedures:

- We interviewed Town officials and reviewed Board minutes, relevant financial records, and available records and reports, such as the monthly financial reports and general ledger (GL).
- We compared bank reconciliations provided to the Board with the corresponding bank statements and amounts recorded in the GL for three months (January 2011, November 2011 and April 2012) to verify the accuracy of the reconciliations by comparing the transactions listed on the bank statements and bank reconciliations with the amounts recorded in the GL.
- We reviewed the sequence of check numbers listed on all Board approved warrants to identify missing checks. We then reviewed the bank statements' canceled check images to determine if any of the missing checks cleared the bank. If the check did not clear the bank, we verified that those checks were accounted for by tracing to the actual voided and/or defaced check. For the checks missing from the warrants that cleared the bank, we examined the claim vouchers to determine if the Board approved them and to ensure that they were for legitimate Town purposes.
- We compared all Town bank reconciliations provided to the Board for three months (January 2011, November 2011, and April 2012) with the corresponding bank statements to verify the accuracy of the reconciliations. We then compared the bank statements and reconciliations to the balances reflected on the GL.
- We reviewed and summarized all adjusting journal entries made to the GL during 2011 and from January 1, 2012 through June 12, 2012 to determine if there were any entries made to cash accounts. We reviewed supporting documentation for all adjustments totaling over \$10,000.
- We scanned the bank statements of all Town bank accounts for three months (January 2011, November 2011, and March 2012) to document all electronic withdrawals, bank transfers, wire transfers, and fees/debit charge transactions, and traced the account activity to other Town bank accounts or other supporting documentation.
- We reviewed all the canceled check images on all bank statements for the audit period to determine if there were any fraudulent disbursements or forged/missing signatures.

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<sup>3</sup> We judgmentally selected every 11th account listed on the AUD.

- We traced a sample of 21 accounts<sup>3</sup> from the 2011 annual update document filed with the Office of the State Comptroller and traced the amounts reported to the GL to verify that the amounts reported agreed.
- We reviewed all deposits to the Latchkey<sup>4</sup> checking account during the audit period and traced to the duplicate deposit tickets and monthly Latchkey deposit detail reports.

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.

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<sup>4</sup> After-school program operated by the Town

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