



Town of Rosendale Financial Operations

Report of Examination

Period Covered:

January 1, 2013 — April 3, 2014

2015M-38



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
EXECUTIVE SUMMARY	2
INTRODUCTION	4
Background	4
Objective	4
Scope and Methodology	4
Comments of Town Officials and Corrective Action	4
SUPERVISOR’S RECORDS AND REPORTS	6
Accounting Records	6
Bank Reconciliations	8
Recommendations	9
WATER AND SEWER OPERATIONS	10
Unaccounted-for Water	10
Cost Allocation	11
Recommendations	12
APPENDIX A Response From Town Officials	13
APPENDIX B OSC Comments on the Town’s Response	18
APPENDIX C Audit Methodology and Standards	22
APPENDIX D How to Obtain Additional Copies of the Report	23
APPENDIX E Local Regional Office Listing	24

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2015

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 Town of Rosendale, 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 New York State 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 Rosendale (Town) is located in Ulster County and has a population of approximately 6,000 residents. The Town provides general government administration, street maintenance, snow removal, water distribution, sewage treatment and disposal and law enforcement to its residents. The Town is governed by an elected Town Board (Board), which comprises the Town Supervisor and four Board members, responsible for the general oversight of Town operations. The Town Supervisor is the Town's chief executive and chief fiscal officer.

The Town's 2014 budgeted appropriations totaled \$4.1 million for all funds, including special districts. For 2014, the Town's budgeted water fund appropriations totaled \$290,093 and budgeted sewer fund appropriations totaled \$247,622.

Scope and Objective

The objective of our audit was to review selected Town financial operations for the period January 1, 2013 through April 3, 2014. Our audit addressed the following related questions:

- Did Town officials adequately monitor financial operations to ensure fiscal stability?
- Did the Board provide adequate oversight of water fund and sewer fund operations?

Audit Results

Town officials were unable to effectively monitor the Town's financial operations and ensure fiscal stability because the Town's financial accounting system was inadequate and the Town's accounting records were inaccurate and incomplete. Additionally, the Town's accounting records did not support the amounts reported to the State Comptroller, including more than \$850,000 in fund balance variances. Further, monthly bank reconciliations were not properly performed. As a result, Town officials do not have adequate assurance that all funds received are properly recorded and accurately accounted for. Without proper recordkeeping, the Board does not have complete and accurate information on which to base financial decisions.

While the Board improved its oversight of water and sewer fund operations during our audit period, the Town could not account for approximately 55 percent of its water. The United States Environmental Protection Agency (EPA) has established an industry goal of 10 percent for unaccounted-for water system losses. We calculated the water loss, after deducting the 10 percent EPA allowance, and found the Town could not account for almost 24 million gallons of water valued at \$30,900. To address this

water loss, Town officials plan to replace water meters and locate and repair water leaks and were notified that a New York State Environmental Facilities Corporation grant was approved to help finance these improvements. We also found that the Town's allocation of personnel service costs between the water and sewer district funds was not based on reasonable methodologies. As a result, Town officials cannot be assured that the water and sewer funds are operating efficiently.

Comments of Town 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 disagreed with the findings and recommendations in our report. Appendix B includes our comments on the issues raised in the Town's response letter.

Introduction

Background

The Town of Rosendale (Town) is located in Ulster County and has a population of approximately 6,000 residents. The Town provides general government administration, street maintenance, snow removal, water distribution, sewage treatment and disposal and law enforcement to its residents. The Town is governed by an elected Town Board (Board), which comprises the Town Supervisor (Supervisor) and four Board members, and is responsible for general oversight of Town operations. The Supervisor is the Town's chief executive and chief fiscal officer.

The Water and Sewer Department (Department) Superintendent (Superintendent) is responsible for the Town water and sewer districts' day-to-day operations. In addition, the Superintendent is responsible for the High Falls Joint Water District's (HFJWD) day-to-day operating activities, which was established by the Towns of Marletown and Rosendale to serve residents located in parts of both towns.

The Town's 2014 budgeted appropriations totaled \$4.1 million for all funds, including special districts. For 2014, the Town's budgeted water fund appropriations totaled \$290,093 and budgeted sewer fund appropriations totaled \$247,622.

Objective

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

- Did Town officials adequately monitor financial operations to ensure fiscal stability?
- Did the Board provide adequate oversight of water and sewer fund operations?

Scope and Methodology

We examined the Town's financial water and sewer operations for the period January 1, 2013 through April 3, 2014.

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

Comments of Town 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

disagreed with the findings and recommendations in our report. Appendix B includes our comments on the issues raised in the Town's response letter.

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.

Supervisor's Records and Reports

The Town's financial activities should be accurately recorded in the accounting records and summarized in interim financial reports that are presented to the Board on a monthly basis to help it monitor and manage the Town's financial operations and assess financial condition. To accurately determine the Town's fiscal health, the Board must have a system in place to account for all money received and disbursed. The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions. The Town Clerk (Clerk), as records officer, is responsible for maintaining custody of all Town books, documents and records.

Town officials were unable to effectively monitor Town financial operations and ensure fiscal stability because the Town's financial accounting system was inadequate and the Town's accounting records were inaccurate and incomplete. Additionally, the Town's accounting records did not support the amounts reported to the Office of the State Comptroller (OSC), including more than \$850,000 in fund balance variances. Further, monthly bank reconciliations were not properly performed. As a result, Town officials do not have adequate assurance that all funds received are properly recorded and accurately accounted for. Without proper recordkeeping, the Board does not have complete and accurate information on which to base financial decisions.

Accounting Records

The Town's financial records must be complete, accurate and up-to-date to be useful for managing Town operations. Adequate accounting records consist of journals, ledgers and other financial documents that provide an accurate and up-to-date record of all Town transactions and account balances. The general ledger is a detailed record containing the accounts needed to reflect the Town's financial position and results of operations. The general ledger includes assets, liabilities and equity (fund balance) accounts as well as control (aggregate) accounts for revenues and expenditures.

It is essential that the Supervisor ensures that the information in the Town's financial management system is up-to-date and accurate so that the Board can effectively exercise its oversight responsibility. As chief fiscal officer, the Supervisor is responsible for maintaining accounting records that allow for useful periodic and annual financial reports to be provided to the Board. If the Supervisor assigns these duties to a bookkeeper, sufficient oversight should be provided to ensure that the bookkeeper's records are accurate, reliable and up-to-date. In addition, the Clerk must maintain custody of all Town books, documents and records.

The Supervisor did not provide adequate oversight to ensure that the bookkeeper properly maintained accurate accounting records. Throughout the audit we requested the general ledger and checkbook register to verify monthly accounting balances, but were informed that they were not maintained. The Supervisor was under the impression that a general ledger was prepared and provided us with a trial balance report which listed transactions by account code. However, this report did not contain running account balances or any monthly account activity. Without such information, the Supervisor could not verify that cash was available to finance Town operations.

Additionally, the bookkeeper did not properly use the Town's financial accounting system. She recorded disbursements in the system which allowed her to generate abstracts.¹ However, cash receipts were manually recorded in receipts ledgers and cash receipts were entered into the accounting system periodically. As a result, the bookkeeper could not generate a current updated checkbook register. Therefore, Town officials did not have adequate assurance that all funds received were recorded and accounted for in the Town's accounting system.

Further, after recording financial transactions, the bookkeeper mailed the Town's accounting records² to the Town's accountant. The accountant prepared monthly reports and filed the annual update document (AUD) with OSC for the Board and mailed the documents back to the bookkeeper. Mailing the Town's original financial documents is not good business practice because it removes the documents from the Clerk's custody, puts the Town at risk of losing the documents and prevents the Board from receiving up-to-date financial information to monitor the Town's financial operations.

We found inconsistencies in the Town's financial records and reports presented to us during the audit. The Town's AUD showed fund balances using the difference between the assets and liabilities as reported on the balance sheets. However, the balance sheets indicated different fund balances for each fund, as shown for 2013 in Table 1.

¹ Abstracts are a list of audited claims specifying the claim number, the claimant's name, the amount allowed, the fund and appropriation account chargeable and other necessary and essential information directed to the Supervisor to pay the claimant the amount allowed.

² The records mailed to the accountant included revenue and expenditure reports by fund, abstracts and bank statements.

Figure 1: Reporting Variances as of December 31, 2013

Fund	General	Highway	Water	Sewer	Total
Accounting Record Fund Balance	\$1,351,585	\$37,192	\$141,482	\$140,553	\$1,670,812
AUD Fund Balance	\$328,751	\$347,838	\$48,610	\$86,337	\$811,536
Variance	\$1,022,834	(\$310,646)	\$92,872	\$54,216	\$859,276

The accountant explained that the variances were a result of financial system software errors causing incorrect accumulated fund balances and also because the Town did not have a year-end general ledger module. In instances where the accounting records do not support the financial records, Town officials should reconcile any differences. The accountant stated that she reconciled the fund balances but does not provide this reconciliation to Town officials. As a result, there is no assurance that the Town's financial records are accurate.

Bank Reconciliations

Timely, complete and accurate bank reconciliations provide Town officials with essential information needed to effectively manage and safeguard cash and to properly monitor the Town's fiscal affairs. Bank reconciliations also provide the opportunity to verify cash receipt and disbursement transactions. The bookkeeper was assigned the responsibility to reconcile the Town's 26 bank accounts monthly for the Supervisor's review.

Because the bookkeeper did not have current, updated account balances, which were developed after month-end by the accountant, she could not perform proper bank reconciliations. She accounted for outstanding checks and deposits-in-transit but did not have the book balance to compare with her reconciliation. This was performed by the accountant and they would discuss any differences. Further, although the bank sent the Supervisor the canceled check images at year-end, no Town official reviewed these images.

The canceled check images were included on a password-protected compact disk. The bookkeeper told us she misplaced the password and never used it to gain access to the images. We were also unable to review the canceled check images because the bookkeeper did not have access to them. Further, while there was evidence that the Board annually audited the Supervisor's records, it would be difficult to perform a thorough audit without the benefit of canceled check images to review.

Without complete and accurate accounting records, proper bank reconciliations and a complete and thorough annual audit of the Supervisor's records, the Board cannot be sure that the cash reported is accurate and the reports presented reflect the Town's true

financial condition. Further, there is an increased risk that errors and irregularities could occur without detection.

Recommendations

The Supervisor should ensure:

1. The accounting system used is adequate, all financial transactions are accurately recorded and a general ledger is maintained.
2. All fund balance variances are investigated and reconciled.
3. The bookkeeper performs monthly bank reconciliations using general ledger balances.
4. Bank reconciliations, including canceled check images, are reviewed to ensure that all receipts and disbursements are included and submitted to the Board for the annual audit.

Water and Sewer Operations

Town officials are responsible for providing oversight of water and sewer operations. This includes monitoring water production to ensure a minimal level of unaccounted-for water, ensuring that water and sewer districts are operating effectively and efficiently and ensuring that all operating costs are properly accounted for.

While the Board improved its oversight of water and sewer fund operations during our audit period, the Town could not account for almost 24 million gallons of water valued at \$30,900. To address this water loss, Town officials plan to replace water meters and locate and repair water leaks and were notified that a New York State Environmental Facilities Corporation (EFC) grant was approved to help finance these improvements. We also found that the Town's allocation of personnel service costs between the water and sewer district funds was not based on reasonable methodologies. As a result, Town officials cannot be assured that the water and sewer funds are operating efficiently.

Unaccounted-for Water

The United States Environmental Protection Agency (EPA) has established an industry goal of 10 percent for unaccounted-for water system losses. Procedures should be in place to monitor and identify the cause of water loss that is greater than the industry goal. It is essential to perform a periodic reconciliation of water produced with water billed to provide responsible officials with the information necessary to detect and reduce water loss. A large volume of unaccounted-for water could be a warning sign of significant infrastructure problems.

The Town has access to water from its reservoir which it treats and then distributes it to customers. The Superintendent measures the outflow of treated water daily at the treatment plant meter. We compared daily outflow data to the water billed on the Department's billing journals for five consecutive quarters (2013-2014) and found that the Town could not account for more than 35 million gallons of water over the period reviewed, which represents approximately 55 percent of total water treated. We calculated the water loss, after deducting the 10 percent EPA allowance, to be approximately 23.9 million gallons. As a result, the Town lost approximately \$30,900, which represents the cost to supply, treat and distribute water.

The Superintendent stated that most water loss was caused by old water infrastructure. Some pipes are over 100 years old and water meters are generally 15 years old. The Superintendent also told us the Town needs financial assistance to finance these repairs. During

June 2014, the Town was notified that its EFC grant application was approved and that the Town would receive a \$2 million grant and a \$1 million low-interest loan to help finance replacing the meters and locating and repairing leaks.

Cost Allocation

Cost allocation is the process of identifying and assigning certain expenditures to functions or operations with which they are associated. Such allocations, when consistently applied from year to year, provide a useful tool to efficiently track the true costs of operations. Cost allocation can also provide a better way to manage resources, help in annual budget preparation and provide officials with an accurate picture of districts' operating costs.

Water and sewer districts costs should be segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The districts should also be financially independent of each other and rents, penalties and other charges should cover the cost of operation and maintenance for each district. Additionally, shared operating costs should be accurately allocated to each district to ensure that each district is charged fairly and equitably.

The Department provides services to the Town of Rosendale's water and sewer districts, as well as to the HFJWD, but does not have any written agreement in place stating how water and sewer costs should be allocated between the districts. Additionally, there is no written agreement between the towns specifying how shared costs should be allocated. For example, the Department and the HFJWD share certain equipment, but no record of equipment use is maintained.

The Town uses payroll and payroll benefit expenditures as a basis to receive cost reimbursement from the HFJWD and allocate operating costs by district.³ The three districts' payroll and related employee benefits totaled \$281,735 in 2013. However, the method used to allocate costs for the three districts was not based on any analysis of each district's actual operating costs.

The Department's actual costs were not fully allocated⁴ because employees did not indicate on the time cards which districts' work they performed. No costs were allocated to the HFJWD for employee

³ District costs were allocated based on the following: the Superintendent received three paychecks each week, one from each district fund. Laborers received two equal pay checks each week, one from the water fund and one from the sewer fund. The water clerk received two checks each week, one from the water fund and one from the sewer fund.

⁴ The water fund payroll included the time spent providing service to the HFJWD. We separated the HFJWD payroll for the purpose of showing how the Town allocated these expenditures between the districts.

benefits and the bookkeeper's time to ensure that the HFJWD reimbursements adequately covered the Department's actual costs to provide services to that the HFJWD. In addition, we found that 84 percent of Department administrative payroll costs were charged to the sewer district, rather than the water district.

When costs are not properly allocated, Town officials do not have assurance that costs have been allocated fairly and equitably to each district.

Recommendations

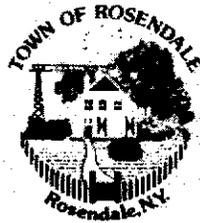
The Board should:

5. Investigate and correct the reasons for unaccounted-for water, including inaccurate metering and significant leaks.
6. Obtain a written agreement for the water services provided to the Town of Marbletown.
7. Develop a fair and equitable methodology for allocating costs among all districts.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

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



1915 Lucas Avenue
Cottkill, NY 12419

(845) 658-3159
Fax (845) 658-8744

Jeanne L. Walsh
Town Supervisor

June 19, 2015

Tenneh Blamah
State of New York
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Re: Town of Rosendale Financial Operations Draft Audit – 2015M-38
Period Covered: January 1, 2013 – April 12, 2014

Dear Ms. Blamah:

The Town Board of the Town of Rosendale has reviewed the Draft Report of Examination for the Town of Rosendale Financial Operations. We have serious concerns regarding this report as we feel the majority of it is inaccurate and incorrect.

It was a shock to me and the Town Board to find out at the exit interview that the Supervisor and Bookkeeper were being audited with no notification from the Comptroller's office. At the exit interview the Supervisor, Bookkeeper and the Towns Accountants disputed the report on many of the auditor's findings. The Bookkeeper was able to produce proof of records during the exit interview which existed in her files and were never asked for during the audit. I feel that much of the confusion could have been avoided if the auditor had requested a meeting earlier on in the process with a list of the documents she needed to review. Her methods of investigation were stopping us in the hall to request documents that were not easily obtained when the Bookkeeper was out of the office. She was not clear on many occasions of what she was looking for and often entered the Bookkeepers office rifling through her papers without being specific of what she needed. This created misinformation on the part of the auditor when assumptions were made without clarifying with the Bookkeeper or the Accountant. With no knowledge that any other audit was being conducted other than the original Water Department Audit, the Supervisor and the Bookkeeper assumed she was looking for documents relating to the Water Department only.

See
Notes 1 and 2
Page 18

See
Note 3
Page 18

As Supervisor for the Town of Rosendale I take very seriously my responsibility to oversee the financial health of our community. I personally review and approve all purchases and manually sign every check. I am in daily conferences with our internal Bookkeeper to discuss all spending, revenues and accounts. We have additional oversight in that we hire an outside accounting firm to assist the Bookkeeper and myself in reviewing, monitoring and the balancing of all accounts, along with preparing the monthly reports and the yearly AUD. An additional report is being submitted by our Accountant and given monthly to the Town Board to show all fund balance variances that are not supported by our accounting program. I personally speak to our Accountant at least once a month or more to discuss all financial issues. Reports are issued monthly to the Town Board and all councilpersons are welcome to review any and all bookkeeping records at any time. I have assigned a Town Councilman to be a liaison to the Bookkeeper to review all cancelled checks.

See
Note 4
Page 18

I want to make very clear that no monies were missing or unaccounted for in the Town of Rosendale. The way that the draft audit is worded could lead people to believe that more than eight hundred and fifty thousand dollars (\$850,000) is unaccounted for. This money is not missing and is fully accounted for by our accountant who is hired by the Town of Rosendale's Town Board to monitor and document these funds.

See
Note 5
Page 18

Page 1 of 4

I felt the auditors were unfair and unprofessional when at the end of the exit interview I expressed my disapproval of how things were handled in this audit. I was told that the auditors had to come "down hard" on me due to the prior theft in the court which was uncovered at a previous audit. I was surprised by this statement since I had been the one to ask the previous auditor to review court accounts as I felt there were some inconsistencies in the Court's finances. There should be no correlation between Court and Town accounts since the Court accounts are handled by separate individuals and not overseen by the Supervisor.

See
Note 6
Page 18

The auditor also reviewed our Water District. This was the audit we were expecting, though it took over a year to review loss of water that had been identified by the Town of Rosendale prior to the audit. The Town was very well aware of leakage and infrastructure failure in the Water District and had already hired an engineering firm to review these Water District infrastructure deficiencies and to apply for grant monies to make those improvements. The auditor was made aware of this before she began her work.

See
Note 7
Page 19

The Town has received a grant for two million dollars (\$2,000,000) and one million forty eight thousand eight hundred dollars (\$1,048,800) in a zero interest loan from the New York State Environmental Facilities Corporation to correct failing infrastructure and replace meters.

See
Note 7
Page 19

The auditor is incorrect in stating that administrator payrolls were charged only to the sewer district. All three districts share this expense.

See
Note 8
Page 19

A methodology for allocating payroll, benefits and costs between the three districts was drafted in 2014 and put in place in January of 2015.

See
Note 9
Page 19

I recently sat on a board for Patterns for Progress to address failing water infrastructure. Comptroller DiNapoli was a guest speaker at this event and I was impressed by his statement that the Comptroller's office was there to help municipalities. It would have been helpful to the Town and more in line with Comptroller DiNapoli's statement if the current auditor had made an effort to assist the Town in making improvements to our financial process.

See
Note 10
Page 19

The Town of Rosendale is interested in making improvements wherever possible to make the Supervisor/Bookkeeper/Accountant's jobs smoother and has been investigating ways to do this.

In the past, when [REDACTED] was assigned to audit the Town of Rosendale she was very helpful in pointing out ways we could improve oversight of the financials in the Town. We embraced her suggestions and made immediate changes to our policies and procedures to reflect her advice.

See
Note 11
Page 19

The italicized remarks below are comments to identify errors in the Draft Audit Report identified by our Accountant [REDACTED] in response to the items that we feel are incorrect:

I would like to write a synopsis of the Town's bookkeeping system and procedures. All disbursements are written manually on a one write cash disbursement page daily for each of the 26 cash accounts. The expenses are then spread to the applicable expense categories and totaled for the month. These disbursements are a copy of the Town Boards' abstracts that they have approved for payment. All receipts are written manually on a one write cash receipt page daily for each of the 26 cash accounts. The receipts are spread to the various revenue categories and totaled for the month. Book cash balances are obtained at any time by using the previous month's book balances plus current deposits less current disbursements. Any Town Board member or Supervisor can obtain this information from the inside bookkeeper on a daily basis. This is done manually though. Bank reconciliations are done manually on the printed bank statements on a monthly basis. Reconciled bank balances are tied at the end of the month to those manual book balances. All one write sheets (disbursements, revenues) and the bank reconciliation pages are given monthly to the outside bookkeeper. The outside bookkeeper posts the monthly totals to the accounting system and prepares two reports for each fund. The first is the monthly operating statement showing revenues and expenditures for the month and year to date compared to the budget and variances. The second is the balance sheet showing all cash balances, other assets, and all liabilities. All cash balances are tied to the bank reconciliations. A fund balance reconciliation is also done per fund each month to prove the statements. This report has been kept by the outside bookkeeper. These two previous reports per fund are returned to the Town's bookkeeper for review of variances and approval by the Town Board.

See
Note 12
Page 19

Page 8, Paragraph #1

Even though the accounting system is antiquated and manual, the Town has a system in place that accounts for all money received and disbursed. The Town Clerk as the records officer is given all Town Board reports at the end of each month.

Page 8, Paragraph #2

Again even though the accounting system is antiquated and manual, the Town officials were able to effectively monitor financial operations. All records are accurate and complete and open to any Town Board member at any time. There also were no variances over \$850,000 in the fund balances. This entire paragraph is inflammatory and inaccurate.

See
Note 13
Page 20

Page 8, Paragraph #3

The Town's accounting system in use right now does not support a general ledger unless the town purchases an additional module for extra \$1,000 per year. This was not done because the Town is in the process of reviewing other systems for purchase in 2015/2016. The accounting system does produce a detail trial balance report which shows the activity in every account for the time period required. This activity is the monthly total posting. In order to see more detail, an auditor would have to go back to that particular one write sheet for that month and look at the checks written. It is cumbersome but useable. We feel that the detail trial balance report in conjunction with the manual disbursement and receipt one write sheets gives adequate ability to trace all transactions in audit and allows for proper oversight. All cash receipts and disbursements for the Town are entered into the accounting system and proved on a monthly basis. Yes, it does not have a general ledger, but the Town does have a manual bank reconciliation sheets that are tied to the cash book balances in the accounting system and the book balances kept by the inside bookkeeper monthly. Most organizations do no more than monthly bank reconciliations.

See
Notes 12
and 13
Pages 19
and 20

Also in the NYS Accounting Manual it does not say that a general ledger is required. This was never a problem in previous audits and the issue will be mute when a new system is picked.

See
Note 14
Page 20

Page 8, Paragraph #4

All records are up to date and complete. Also the Town Clerk does have the Board's monthly reports. There is no purpose for this paragraph.

See
Note 15
Page 20

Page 8, Paragraph #5

We feel timely communication between the auditor and the outside and inside bookkeeper with specific questions would have solved numerous problems. The Supervisor was asked for reports on days the inside bookkeeper was not there and when the outside bookkeeper was asked once for the G/L, it was explained that the program did not have one and why. Even without the G/L, with the use of the detail trial balance reports and balance sheets, the Supervisor can verify the checkbook reconciled balance of cash available to the Town on a monthly basis. Checkbook balances can be asked for on a daily basis and given by the inside bookkeeper which is then reconciled monthly by both the inside and outside bookkeeper. Just because checkbook balances are manually kept does not mean they are not known and that they are not reconciled. Again a new accounting system purchase is being investigated and these issues of manual vs. computer reports will be solved. In the meantime, though, just because cash balances are not on a computer system doesn't mean the inside bookkeeper cannot tell you the book balance of any cash account at any time. The Supervisor should not be written up in an inflammatory way because of a manual system that is auditable.

See
Notes 7,
12 and 13
Pages 19
and 20

Page 9, Paragraph #1

Cash receipts are manually kept on a one-write sheet by cash account and entered monthly not periodically. Again at any time the bookkeeper can take the prior month book balance and add current deposits less current disbursements to get an updated checkbook balance. This is done all the time. When at the month end, these balances are reconciled to the bank and agreed to the outside accountant's balance sheet. Therefore the Town has adequate assurance that all funds received and disbursed are recorded and accounted for in the Town's accounting system. This paragraph should be deleted.

See
Notes 12,
13 and 15
Pages 19
and 20

Page 9, Paragraph #2

The Town has an inside bookkeeper to do the daily activity and an outside bookkeeper to post reports and give an additional layer of oversight. All documents mailed to the outside bookkeeper are copies. At no time are original source documents mailed. The Town Clerk still has access to all original source documents. Board reports are generated timely each month in time for the Board meeting. This paragraph should be deleted.

See
Note 16
Page 21

Page 9, Paragraph #3

As far as the fund balances being off, the reports that are given back to the Town's bookkeeper do not balance. This is because the accounting program used does not have the year-end module tied to it. That does not mean that the fund balances are not reconciled. The software company was contacted and the problem was found to be that there was an additional module that would

See
Note 12
Page 19

cost over \$1,000 annually to fix this issue. Manual reconciliations were done in the absence of purchasing this additional module. The spreadsheet for this reconciliation was given to the auditor. The reconciliation is done monthly. They are available but were not given to the Supervisor and Town Board. This will be changed in the future until a new system is purchased. This does not mean that there is no assurance that the Town's financial records are accurate. In fact, a walk-through of the entire manual/computer system of accounting proves it to be auditable and accurate. This paragraph should be rewritten.

See
Note 12
Page 19

Page 10, Paragraph #2

The inside bookkeeper has manual checkbook balances for each account; they are just not on a spreadsheet or computer. They are done on an as-needed basis. Account balances are reconciled monthly when the inside bookkeeper prints the month end bank balances. The reconciliation is right on the print out, and she does agree the reconciled balance to her book balance. This is doubled checked by the outside bookkeeper when the receipts and disbursements are posted. If the book balance on the final balance sheet did not agree with the inside bookkeeper's book balances, they will discuss any differences. Outstanding checks and deposits in transit are only accounted for after month end as per most companies.

See
Note 17
Page 21

Page 10, Paragraph #3

This paragraph needs to be deleted.

I am in agreement that the disk sent to the bookkeeper from the bank with the cancelled check images on it, be used by a different Town personnel to compare the cancelled checks to the monthly abstracts. This was not done due to the purchase of a new computer and problems with IT setting it up. The Town would be happy to implement this procedure.

See
Note 10
Page 19

In conclusion, the accounting system of the Town is adequate, though antiquated and all financial transactions are accurately recorded. All fund balances are tied out monthly and reconciled to the Town Board reports and will be now given also to the Town Board. All bank reconciliations are done monthly and tied to the same Town Board reports. If the Town wants to do so, an additional \$2,000 annual investment in this accounting system modules would create some of the reports insisted by the NYS auditor, however, the manual one write sheets would still be needed. We truly feel that with the outside reconciliations and procedures followed, there is adequate oversight at this time. Discussions have been started in the last six months to update or change the accounting system in conjunction with retiring personnel.

Respectfully,

Jeanne L. Walsh
Rosendale Town Supervisor

Cc: Town of Rosendale Town Board
Terry Johnson Town of Rosendale Water & Sewer Superintendent

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

The Supervisor and all Board members were sent and received the audit engagement letter months before our audit began. In addition, the Supervisor attended our entrance conference, which was held on April 3, 2014, before the start of our audit. At that time, we discussed the audit objective with the Supervisor, Superintendent and water clerk.

Note 2

Most documents submitted by the accountant and the bookkeeper⁵ during the exit conference were documents we previously reviewed during our audit fieldwork. The only new documents provided were copies of journal entry pages the bookkeeper presented to show that she recorded receipts in the accounting system periodically. Therefore, the documents did not change our findings related to the lack of a general ledger. The reconciliations that the accountant prepares are not provided to the Supervisor until it is time to prepare the AUD, and, as such, no one verifies monthly account balances. We updated our report to reflect any changes that were subsequently verified at the exit conference.

Note 3

We worked closely with the bookkeeper who provided the records needed for the audit.

Note 4

As outlined in the report, the Town has an ineffective accounting system and processes that did not provide current, updated accounting information and puts Town assets at risk. The additional oversight and reports referred to were not in place during the audit.

Note 5

As stated in our report, the Town's accounting records did not support the amounts reported to OSC, including more than \$850,000 in fund balance variances. During our audit fieldwork, the accountant explained that these variances were a result of financial system errors causing incorrect accumulated fund balances.

Note 6

Audit team members acted in a courteous and professional manner and met with the Supervisor and offered guidance to improve Town operations. We did not make any statements at the exit conference regarding our previous audit.⁶

⁵ The accountant is the individual referred to as the "external bookkeeper" and the bookkeeper is the individual referred to as the "internal bookkeeper" throughout the Town's response.

⁶ See our report number 2014M-232 issued in October 2014, entitled Town of Rosendale Justice Court available at: <http://www.osc.state.ny.us/localgov/audits/towns/2014/rosendalejc.pdf>

Note 7

Our audit fieldwork took a total of 60 days over the course of one year because Town employees were part-time and not always available to provide documentation and answers our questions. The bookkeeper was also not always available. As a result, the auditors were flexible and worked around Town officials' and employees' work schedules. Our planned reviewed of water department financial activities related to the three districts was explained to the Supervisor at the entrance conference. As stated in our report, during June 2014 the Town would receive a \$2 million grant and a \$1 million low-interest loan to help finance certain water district repairs and improvements.

Note 8

As stated in the audit report, 84 percent of Department administrative payroll costs were charged to the sewer district, rather than the water district. We calculated this percentage from the expenditures as reported on the AUD.

Note 9

This corrective action took place after our audit fieldwork was complete.

Note 10

We discussed ways to correct the deficiencies identified during the audit with the Supervisor and Town employees. The Board and the Supervisor are responsible for ensuring that the corrective actions discussed are implemented.

Note 11

Deficiencies similar to those outlined in the audit report were also identified in our prior report. These deficiencies remained uncorrected.

Note 12

During our audit, we identified the following accounting system deficiencies:

- Book balances did not include any prior month outstanding checks and instead included only the current month's outstanding amounts.
- The bookkeeper's hand written reconciliations on the bank statements indicated the closing balance, the outstanding checks and the calculated current balance (there were no deposits-in-transit in the water and sewer bank accounts during 2013). We were unable to determine what balance the bookkeeper reconciles her calculated current book balance with at the end of the month. At the exit conference, we confirmed that only the accountant maintains a book balance.
- One-write systems are manual records used to capture all data when a transaction is made (i.e., checks are written or cash is received) eliminating the need to copy disbursement or receipt

information to a separate record. We were unaware these records existed while conducting the audit because the bookkeeper used the Town's computerized accounting system to process checks. In addition, the Supervisor and the bookkeeper told us that the accounts payable clerk recorded all vouchers in the accounting system using the vouchers when paying claims. During our audit, the Town did not use a one-write system for receipts but instead maintained and provided us with a manual cash receipts journal.

- The bookkeeper told us she periodically records the daily transactions in the Town's computerized accounting system. The accountant indicated that there are two separate computerized accounting systems⁷ and one manual accounting system.⁸
- The accountant maintained and kept the fund balance reconciliations, which were not provided to the Board. Therefore, Town officials had no way to verify if the amount of reported fund balance was accurate. The documents the accountant provided to us during the exit conference were not reconciliations but spreadsheets showing the two methods used to calculate fund balance.⁹ There was no reconciliation between the amount of fund balance shown on the Town's balance sheet and the amount of fund balance reported on the AUD to explain the variances we identified.

Note 13

The three accounting systems combined cannot generate a general ledger or produce current and complete accounting information. Each component of these systems performs separate and independent tasks, which resulted in the types of deficiencies identified in the report.

Note 14

Our publication entitled *Information for Town Officials*¹⁰ specifically states that, among other reports, a general ledger is required.

Note 15

As outlined in the report, all records were not current and complete. During our audit period, the bookkeeper recorded cash receipts periodically (not on a scheduled or daily basis) and the accountant recorded these transaction once or twice a month. Therefore, District officials had no assurance that all funds received and disbursed were accurately accounted for.

⁷ The Town maintained the bookkeeper's accounting software on one Town computer. The accountant had the same software on a computer at her off-site location. However, the two computers were not linked or networked together and were used independently of each other.

⁸ The bookkeeper recorded receipts in a handwritten journal, which she periodically entered into the Town's accounting software. The accountant then entered these transactions in her software via batch journal entry at month-end.

⁹ The first calculation was assets plus liabilities equals fund balance and the second was revenues minus expenditures plus prior year fund balance equals fund balance, neither of which were a reconciliation.

¹⁰ Available on our website at: <http://www.osc.state.ny.us/localgov/pubs/townoff/ito.pdf>

Note 16

During our audit fieldwork, we observed that original records were mailed to the accountant.

Note 17

The bookkeeper's water and sewer account bank reconciliations contained calculated balances that were not compared with any maintained book balances. Therefore, the reconciliations were inadequate.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the Town's selected financial operations for the period January 1, 2013 through April 3, 2014. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials to gain an understanding of internal controls over the accounting records.
- We reviewed Board minutes to determine if adequate oversight of the Department was provided.
- We examined accounting reports such as abstracts, trial balances, operating statements, balance sheets, bank deposit slips and bank statements. We compared the fund balances reflected on the trial balance reports with the balances reported on the AUD.
- We interviewed the Supervisor and the Superintendent to gain an understanding of water and sewer operations and the high level of unaccountable water and recordkeeping for the water and sewer operations.
- We calculated the unaccountable water and determined potential cost savings if remediated.
- We reviewed and tested the billing journal downloads for the audit period for accuracy and compliance with the Town Code and water and sewer rates.
- We tested the penalties assessed against the penalties received.
- We tested the re-levy of water and sewer charges.
- We reviewed the cost allocation payroll between the sewer and water districts, as well as between the Rosendale water district and the HFJWD.

We conducted this performance audit in accordance with 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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