



# Town of Amsterdam

## Supervisor's Records and Reports

### Report of Examination

Period Covered:

January 1, 2010 — July 31, 2012

2013M-8



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

April 2013

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 Amsterdam, entitled Supervisor's Records and Reports. 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 Amsterdam (Town) is located in Montgomery County and has a population of approximately 5,600 residents. The Town provides a range of services to its residents including justice court, highway maintenance, snow removal, trash collection, water and sewer services, fire protection, and youth and senior programs. The Town's budgeted expenditures for 2012 were approximately \$3.7 million and were funded primarily with sales tax, State aid, water and sewer rents, and real property taxes for fire protection.

The Town Board (Board) comprises the Town Supervisor (Supervisor) and four Council members. The Board is responsible for overseeing the Town's operations and for the general management and control of the Town's finances. The Supervisor is generally responsible for the administration and supervision of the day-to-day Town fiscal operations which includes maintaining accounting records and providing the Board with timely, accurate, and useful financial information. The Supervisor has appointed a bookkeeper to assist him with reconciling the Town's bank accounts.

## Objective

The objective of our audit was to review the Town's accounting records and reports. Our audit addressed the following related question:

- Did the Supervisor maintain complete and accurate accounting records and reports to allow the Board to monitor the Town's financial operations?

## Scope and Methodology

We examined the Supervisor's records and reports for the period January 1, 2010 through July 31, 2012.

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

## Comments of Local Officials and Corrective Action

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

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded

to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

## Supervisor's Records and Reports

The Town's financial data must be complete, accurate, and up to date to be relevant and useful for managing Town operations. Local governments must account for moneys received and disbursed through separate funds, each of which is a fiscal and accounting entity with a self-balancing set of accounts.<sup>1</sup> The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions, including maintaining accounting records, providing monthly financial reports to the Board, and filing the annual update document (AUD) with the Office of the State Comptroller (OSC). The AUD is a summary of the Town's annual financial information which should agree to the accounting records. In addition, the Supervisor must perform monthly bank to book reconciliations to ensure the timely identification and documentation of differences between the Town's and its bank's cash balances. If the Supervisor assigns these duties to a bookkeeper, he should provide sufficient oversight to ensure the bookkeeper's reconciliations are reliable. Also, the detailed monthly financial reports the Supervisor submits to the Board should include all receipts and disbursements, cash balances, and a comparison of budget to actual variances. Financial reports enhance the Board's ability to oversee financial activities and monitor the Town's budget.

The Supervisor does not maintain timely or accurate accounting records for the Town. Therefore, the accounting records do not support the AUDs filed by the Supervisor for 2010 and 2011. Also, since the majority of the Town's funds are co-mingled into one checking account, bank reconciliations are prepared by the bookkeeper to balance with the Town's cumulative cash balance versus the cash attributable to each individual fund. Furthermore, the Board does not receive all the financial information it needs to monitor the Town's financial operations.

Accounting Records — The Supervisor maintains the Town's accounting records on computerized accounting software; however, he does not ensure that individual funds are self-balancing during the year. The Town's accounting records were not closed<sup>2</sup> for the fiscal year ending December 31, 2010, until after our discussion with the Supervisor in August 2012. In order to close the accounting records

<sup>1</sup> These funds generally include a general fund and can include other funds, such as a capital project fund, debt service fund, trust and agency fund, special district funds, and a highway fund.

<sup>2</sup> At the end of each fiscal year, revenues and expenditures should be closed to fund balance, so that at the beginning of each year revenues and expenditures start at zero again.

for 2010, the Supervisor prepared journal entries to enable the individual funds to balance, but not based on any sound accounting practices or evidence of errors identified that warranted adjustments. For example, the Supervisor posted a journal entry on August 12, 2012 dated December 31, 2010 that included one-sided entries made to various funds' cash accounts. The adjusting journal entry included debits to cash in the general fund, town-outside-village fund, and the sewer fund whereas credits to cash were to the highway part-town fund and the water fund. The Supervisor does not maintain supporting documentation for the adjusting journal entries made, nor did he obtain approval from the Board. Furthermore, entries should not be one-sided; that is, an offsetting credit or debit should be made within the same fund when an entry is made as opposed to a corresponding credit or debit in a separate fund.

As of November 2012, Town officials indicated the accounting records were still open for fiscal year ending December 31, 2011. We reviewed the financial overview report (trial balance) for the period ending December 31, 2011 and found that, similar to the 2010 records, it includes individual funds which are out of balance, although total debits and credits for all funds equal. For example, the report has total debit balances of \$2,710,416 and total credit balances of \$2,608,181 in the general fund for a difference of \$102,235. However, grand total debits and credits for all town funds on the report both equal \$18,748,818. The Supervisor indicated the same thing happened with the reports when he closed the records for December 31, 2010, as well as previous years due to problems he has had with the accounting software's year-end closing process. He stated the funds have been out of balance like this for as long as he can remember and he has been serving as Supervisor since 2000. Thus, he makes unsupported adjusting journal entries as mentioned above in order to close the records each year.

Because individual funds are not balancing, we performed testing to determine if receipts and disbursement are being recorded properly. Our tests included tracing between accounting records and source documents.<sup>3</sup> Although we found no material exceptions while tracing receipts, we did note insignificant errors while tracing disbursements, which have been discussed with Town officials.

Bank Reconciliations — As of July 31, 2012, the Town has 12 bank accounts with ending bank balances totaling \$960,903. However, the majority of the Town's funds are co-mingled into one checking account. The bookkeeper prepares the monthly bank reconciliations,

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<sup>3</sup> See Appendix B, Audit Methodology and Standards, for additional details on our testing.

although the reconciliations are prepared to balance with the Town's cumulative cash versus the cash attributable to each individual fund. Additionally, the Supervisor and bookkeeper work collectively to ensure the Town's total cash reported annually in the AUD equals the total cash reported in the accounting records at year-end. We were able to verify this calculation for fiscal years ending December 31, 2010 and December 31, 2011.

We found discrepancies between the bank reconciliations and the account balances documented in the accounting records. For instance, the bookkeeper included an adjustment on the bank reconciliation to balance cash recorded in the accounting records with the bank statements. This adjustment, totaling \$73,065, is attributable to cash recorded in the trust & agency cash account that is no longer on deposit. This overstatement of the cash balance has not been adjusted in the accounting records for several years and is inaccurate.

As with the records that are maintained for the various individual funds, the bank reconciliations should also be made in a means that balances the individual funds' cash balances to the bank balances. When they are not, it is difficult to verify the work.

Financial Reports — The accounting records did not support the AUDs filed by the Supervisor for fiscal years ending December 31, 2010, and December 31, 2011. This is true for both the balance sheet accounts and the revenues and expenditures reported in the operating statements. We noted the following concerns:

- Thirteen cash accounts in 2010 and eight cash accounts in 2011 were reported inconsistently between the AUD and the accounting records. For example, the general fund cash account was reported as \$119,971 in the AUD, but had a \$54,067 balance in the accounting records for 2010. Likewise, the sewer district cash special reserves account was reported as \$37,523 in the AUD, but the balance in the accounting records was \$63,300 at the end of 2011.
- Among various funds there were three revenue and seven expenditure accounts in the accounting records that did not agree with the amounts reported on the 2010 AUD. The total dollar amount of all variations equaled \$943,017.
- Among various funds there were two revenue accounts and one expenditure account in the accounting records that did not agree with the amounts reported on the 2011 AUD. The total dollar amount of all variations equaled \$43,987.

- Four funds in 2010 and five funds in 2011 had deficit fund balances reported in the accounting records although deficits were not reported for these funds on the respective AUDs. For example, the sewer fund had fund balance reported as \$89,214 in the AUD, but had a \$295,652 deficit fund balance in the accounting records for 2010. Likewise, the highway part-town fund had fund balance reported as \$4,073 in the AUD, but had a \$124,909 deficit fund balance in the accounting records for 2011. Additional funds with positive fund balances were also reported inconsistently between the AUD and the accounting records for both years.

The Supervisor stated that he will use non-supported balancing (plug) numbers to adjust revenue and expenditure accounts in order to balance fund balance within the AUDs. The Supervisor does not record the adjustments in the accounting records, nor does he keep documentation as to the changes which are made. Furthermore, although the differences between the AUD and the accounting records for 2011 are most likely due to plug numbers used by the Supervisor, he cannot explain why there are so many differences in 2010.

Moreover, the Board does not receive monthly Supervisor's reports, as the only financial reports they receive are monthly operating statements. Although the operating statements include monthly revenues and expenditures and comparisons of the year-to-date amounts to the budget, we found during testing<sup>4</sup> that the report does not list all monthly transactions. As such, since reconciliations are needed to balance the operating statements to other accounting records and bank statements, the Board does not receive complete information regarding the Town's monthly receipts and disbursements. In addition, the Supervisor does not provide the Board with a listing of bank account balances and bank reconciliations other than during the Board's annual audit of the Supervisor's records or as requested by the Board.

Timely, sufficient, and accurate accounting records are essential for the preparation of appropriate financial reports that help the Board to monitor and control financial operations and assess the Town's financial condition. The lack of timely and accurate financial information led to errors and irregularities that went undetected and uncorrected, while also hampering the Board's ability to make sound financial decisions. Additionally, the Board is unable to know the true financial condition of the Town given that the Supervisor's accounting records cannot be relied on.

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<sup>4</sup> See Appendix B, Audit Methodology and Standards, for additional details on our testing.

## **Recommendations**

1. The Supervisor should ensure that the Town's accounting records are complete, accurate, and maintained in a timely manner.
2. The Board should ensure that complete and accurate monthly bank reconciliations are performed for each individual fund.
3. The Supervisor should file accurate AUDs with OSC, which reflect the amounts recorded in the accounting records.
4. The Supervisor should perform an analysis to determine the correct cash and other balance sheet accounts for all funds and provide the results to the Board.
5. The Supervisor should provide the Board with a monthly Supervisor's report including all receipts and disbursements, and cash balances.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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



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March 27, 2013

Jeffrey P. Leonard, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396

Re:

To Whom it may concern:

I have reviewed the current Report of Examination for the Town of Amsterdam and report that the Town will do the following:

The Town through the New York State Comptroller's Office, the software vending company and possibly an outside auditing firm, will ensure to make the necessary changes.

Should you have any questions in response to this issue, please feel free to contact my office.

Very truly yours,

Thomas P. DiMezza  
Town Supervisor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if internal controls over selected financial activities were appropriately designed and operating effectively. 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, Supervisor's records and reports, cash management, cash receipts and disbursements – Supervisor's office, Justice Court revenues, water/sewer rents, Town Clerk revenues, building department revenues, cash receipts – taxes, purchasing, claims processing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate Town officials to gain an understanding of the internal control structure and determine the effectiveness of such controls. We also performed limited tests of transactions and reviewed pertinent documents such as adopted policies and procedures, Board minutes, and financial records and reports. Through our completion of the IT questionnaire, we gained an understanding of the Town's information systems controls. Further, we reviewed the Town's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for inherent control risks. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected the Supervisor's records and reports for further audit testing.

To accomplish the objective of this audit, we performed the following audit procedures:

- We interviewed Town officials and reviewed Board minutes to gain an understanding of internal controls over the Supervisor's records and reports.
- We reviewed the Supervisor's adjusting journal entries to close the accounting records for 2010 and adjust the accounting records to the balances reported on the 2011 annual update document (AUD).
- We interviewed the Supervisor to gain an understanding of the process for closing the accounting records for 2010 and preparations to close the accounting records for 2011. As a result, we reviewed the financial overview report generated for December 31, 2011.
- We traced to/from source documents for receipts and disbursements for the months of March 2012 and June 2012. The records and reports used included G/L account detail, audit list – G/L journal entries, abstract of vouchers – paid, abstract listings reviewed by the Board members, and the vouchers. We also used bank statements for the Town's checking account which included photocopies of canceled checks, the cash receipts binder which included the bank deposit slips/tickets and supporting documents, and the bookkeeper's receipt book.

- We reviewed bank reconciliations for December 31, 2010, December 31, 2011, and July 31, 2012, and compared the reconciliations to the accounting records for all three periods, and to the ending AUD balances for 2010 and 2011.
- We compared the account balances documented in the AUDs with the accounting records (balance sheets and operating statements) for all funds for fiscal years ending December 31, 2010 and December 31, 2011.
- We reviewed the operating statements for March 2012 and June 2012 for all funds and compared the reports to the abstracts, Board-voucher listings, and bank statements for appropriations and the audit list – G/L journal entry, receipt book, and bank statements for revenues. As a result, any differences/discrepancies were reconciled through the use of G/L account detail reports, bank reconciliations, our previous testing, and/or inquiry with the Supervisor, as needed. For the budget figures, we compared the year-to-date budget figures documented throughout the June 2012 operating statement to the Town budget for 2012 for all funds.

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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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Steven J. Hancox, Deputy Comptroller  
Nathaalie N. Carey, Assistant Comptroller

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