



Town of Mohawk

Records and Reports

Report of Examination

Period Covered:

July 1, 2011 — December 31, 2012

2013M-113



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 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 Mohawk, entitled 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 Mohawk (Town) is located in Montgomery County and has approximately 3,800 residents. The Village of Fonda is located within the Town's boundaries. The Town is governed by the Town Board (Board) which comprises four elected Board members and an elected Town Supervisor (Supervisor). The Board is responsible for the general management and control of the Town's financial operations. The Supervisor, as the Town's chief executive officer and chief fiscal officer, is responsible for virtually all of the Town's financial duties. These duties include keeping a complete and accurate accounting of all Town funds received and disbursed, and providing financial reports to the Board. At the beginning of his 2010 term, the Supervisor appointed a bookkeeper to maintain the Town's accounting records.

The Town provides general administration, recreation, road maintenance, snow plowing, fire protection, and street lighting services to its residents. The Town's financial activity is accounted for in four separate funds: a town-wide (TW) general fund,¹ two town-outside-village (TOV) funds,² and a street lighting fund. The Town's 2013 adopted budget's combined operating fund appropriations totaled \$1.5 million, funded primarily with real property taxes, sales tax, and State aid.

Objective

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

- Are the Town's accounting records and reports adequately maintained to allow Town officials to properly monitor the Town's finances and its overall financial condition?

Scope and Methodology

We interviewed Town officials and examined the Town's accounting records and reports for the period July 1, 2011, through December 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 C of this report.

¹ The TW general fund is the principal operating fund and is used to account for all Town-wide operations (including the Village).

² Separate general and highway TOV funds are used to account for services provided for the benefit of the residents and taxpayers residing in the area of the Town located outside of the Village boundaries.

**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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on 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.

Accounting Records and Reports

As chief fiscal officer, the Supervisor is responsible for maintaining accurate and complete accounting records that document assets, liabilities, fund balance, and results of operations (revenues and expenditures). The Supervisor is also responsible for providing the Board with comprehensive monthly reports that include accurate financial information for each of the funds. Separate funds are required to account for TW and TOV activities and to properly allocate their resources. While maintaining only two bank accounts is permissible, adequate accounting records must be maintained to properly identify the cash belonging to each fund. Additionally, towns are required by law to annually file with the Office of the State Comptroller (OSC) an annual update document (AUD), containing detail of account balances and the financial activity for the preceding year.

The Supervisor did not maintain accurate and complete accounting records to properly document assets, liabilities, fund balances, and results of operations, nor prepare accurate reports that would allow the Board to adequately monitor the Town's financial operations. Although the Supervisor prepared and remitted monthly reports to the Board and AUDs to OSC, these reports were not accurate because they were prepared using the inaccurate and incomplete accounting records. As a result, the Board did not have the information necessary to make informed financial decisions about Town operations.

Each fund's balance sheet accounts (assets, liabilities, and fund balance) are cumulative and the respective amounts should be maintained to serve as a starting point for the ensuing year's accounting activity (carried from one year to the next) and to help substantiate the Town's financial condition at a given point in time.³ At the end of each fiscal year, revenues and expenditures should be closed to fund balance,⁴ so fund balance amounts are current as of the end of each year.

The Supervisor did not close the accounting records at year-end or carry accurate balance sheet account balances from one fiscal year to the next. As a result, the Town's accounting records incorrectly began each year with zero balances for each fund's balance sheet accounts.

³ Generally, fund balance is the difference between total assets and total liabilities reported on the Town's balance sheet; however, because the Town accounts for and reports only cash assets and does not report liabilities, the amount of fund balance should equal the amount of cash balance.

⁴ By adding operating revenues to and deducting operating expenditures from the accumulated fund balance in each of the Town's funds

Because of these deficiencies, we attempted to determine the amount of fund balance for each Town fund by identifying the total amount of cash available as of December 31, 2012. We determined that the cash balance for all Town funds totaled approximately \$1.6 million. However, we could not identify which portion of this balance belonged to each fund because cash was comingled in two bank accounts,⁵ and the Supervisor did not maintain adequate accounting records to document the portion of cash belonging to each fund.

Results of Operations – The Supervisor must accurately record revenues and expenditures, and the Board and the Supervisor should monitor the actual amounts received and expended against the amounts budgeted to properly manage the Town’s financial operations. Additionally, the Board should approve all budgetary adjustments prior to incurring and recording an expenditure that would result in such expenditure exceeding its budgeted appropriations.

Our review of five revenues and five expenditures⁶ for each fund as of December 31, 2012, and the related detail accounting records supporting these balances revealed that the TW general and the TOV highway funds’ revenues and expenditures were not accurately recorded because the bookkeeper made inaccurate adjusting journal entries to the accounting records.

Erroneous journal entries included adjustments that reduced certain revenue and expenditure accounts by the same amounts. These entries were made to correct adjusting entries that were already correctly recorded in the accounting records. Additionally, some adjusting entries were made that decreased one expenditure account and increased a different expenditure account to prevent individual expenditure accounts from exceeding budgeted appropriations. As a result of these erroneous adjustments, revenues and expenditures were inaccurately recorded as follows:

- Two of the five TW general fund revenues and three of the five TOV highway fund revenues were understated by \$153,853 and \$104,502, respectively, because the bookkeeper made adjusting journal entries that reduced revenues and corresponding expenditures by the same amounts. For example, \$22,029 of disaster relief aid was received and recorded as unclassified revenue. However, an adjusting entry

⁵ The Town maintains two bank accounts that include cash balances from the TW general fund, TOV general fund, TOV highway fund, and the special lighting district fund.

⁶ We selected our sample of revenues and expenditures from all revenues and expenditures reported for each fund.

was made that reduced this revenue by \$22,029 and the related expenditure by the same amount.⁷

- Three of the five TW general fund expenditures and one of the five TOV highway fund expenditures were understated by \$156,853 and \$24,948, respectively. Adjusting journal entries were made to record revenues in expenditure accounts (effectively reducing such expenditures) or entries were made that increased one expenditure and decreased a different expenditure. For example, the highway equipment and capital outlay expenditure account for permanent improvements was understated by \$22,148 because the revenue received from the sale of equipment was recorded as a decrease to this expenditure account (by first correctly recording the sale of equipment as a revenue but then subsequently and incorrectly decreasing the revenue and this expenditure).
- Several other TW general and TOV highway fund expenditure account balances were similarly misstated because the adjusting journal entries made erroneously increased certain expenditure accounts while decreasing others. For example, snow removal expenditures were overstated by \$46,000 because journal entries were made that inappropriately increased this account (even though this amount was not actually expended for snow removal purposes) and decreased contractual highway permanent improvement expenditures instead.

Additionally, we reviewed five budget amendments⁸ and the related accounting records to determine whether these amendments were properly recorded. While the Board approved these amendments, four of them totaling \$57,573 were not properly recorded in the accounting records. Instead, the bookkeeper made adjusting journal entries which impacted actual revenues and expenditures rather than estimated revenues and budgeted appropriations. According to the Supervisor and bookkeeper, they made these entries in an attempt to modify the operating budgets for these funds but unknowingly modified actual revenues and expenditures rather than estimated revenues and budgeted appropriations.

⁷ If the Town receives a refund of an expenditure incurred in a prior fiscal year it would be appropriate to record it in the year received as an increase to the cash balance and a corresponding decrease to the applicable expenditure; otherwise, the revenue should be recorded as an increase to the cash balance and a corresponding increase to the impacted revenue account.

⁸ We reviewed Board meeting minutes during our audit period to identify all budget amendments approved by the Board.

Financial Reports – Good business practices dictate that the Supervisor submits monthly financial reports to the Board. These reports should contain detailed monthly and year-to-date budget-to-actual comparisons of revenues and expenditures and reconciled cash balances for each fund. Complete and accurate monthly reports provide essential financial information which the Board can use to monitor the Town’s financial operations, and serve as a reliable source of financial data to be used in the development and adoption of reasonable budgets. The AUD can also provide the Board with an important tool for monitoring financial activity and budgeting.

The Supervisor prepared monthly financial reports for the Board which listed actual revenues and expenditures for each fund and the adopted and modified budgeted amounts. However, the reports did not contain reconciled cash balances. We reviewed various revenue and expenditure accounts from the Supervisor’s monthly reports,⁹ traced them to the accounting records, and found they agreed. However, because the accounting records were inaccurate due to the accounting discrepancies previously mentioned, these monthly reports were also inaccurate. As a result, the Supervisor’s monthly reports did not provide the Board with an adequate tool for managing financial operations or developing and monitoring budgets.

We compared five revenues and expenditures reported by the Town in the 2011 AUD to the accounting records and found they agreed. However, when we attempted to trace the amounts reported for all balance sheet accounts (for all funds reported in the AUD) to the accounting records, we found that none of them agreed with the accounting records. Further, the reported cash balances did not reconcile with the Town’s bank balances. The bookkeeper said that she was aware that the reported amounts were inaccurate; however, she was unable to provide a reason for these discrepancies. As a result, the AUD did not accurately reflect the Town’s financial standing to the Board, taxpayers, and other interested third parties.

The Town’s failure to use TW resources for only TW expenditures and TOV resources for only TOV expenditures caused taxpayer inequity. Furthermore, the lack of accurate accounting records precludes the Board from monitoring and managing financial operations, assessing financial condition, and adopting reasonable and equitable budgets. The 2011, 2012, and 2013 adopted budgets contained provisions for the appropriation of fund balance¹⁰ as a financing source for

⁹ We selected five revenues and expenditures from the TW general fund, the TOV general fund, and the TOV highway fund.

¹⁰ The adopted 2011 TW general fund budget contained \$109,850 of appropriated fund balance. The adopted 2012 and 2013 TOV highway budgets contained \$104,100 and \$168,250 of appropriated fund balance, respectively.

operations. However, because adequate accounting records were not maintained, no one is certain of the actual amount of available fund balance for each fund, and Town officials lack assurance that fund balance was available to fund budgeted appropriations.

Recommendations

1. The Supervisor should ensure that the accounting records accurately reflect all financial activity, including accurate beginning balance sheet account balances.
2. The Board and Supervisor should develop and implement procedures to identify and record the appropriate amount of fund balance for each fund.
3. The Supervisor should ensure that all accounting transactions (including adjusting journal entries) are accurately recorded in the accounting records within the correct funds, to properly allocate TW and TOV resources.
4. The Supervisor should provide the Board with accurate and complete periodic reports.
5. The Supervisor should file an AUD which accurately reflects the Town's financial activity.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF MOHAWK

P.O. Box 415 / 2-4 Park Street
Fonda, New York 12068-0415
Phone: 518-853-3031/ Fax: 518-853-4730
Court: 518-853-8865

GREG RAJKOWSKI
Supervisor

September 2, 2013

KIMBERLY M. SULLIVAN
Town Clerk

Audit Report Number: 2013M-113

WILLIAM D. HOLVIG
Highway Superintendent

Jeffrey P. Leonard
Chief Examiner
1 Broad St. Plaza
Glens Falls, N.Y. 12801-4396

Dear Mr. Leonard,

This is in response to the preliminary draft audit report your agency conducted on the Town of Mohawk for the period covering July 1, 2011 – December 31, 2012.

In general our findings on the audit are acceptable with the caveat that as early as 2010 we reached out to OCS for assistance with the following issues:

1. 5/19/10 asked for assistance on the 2009 Annual Financial Report - the bank accounts reconciled, but did not tie out with the AUD.
2. 6/30/10 assistance to reconcile 2009 AUD. We could reconcile part of the AUD, but it did not balance.
3. 4/18/11 monthly bank statements continue to balance every month to the penny, yet the AUD still does not balance. Met with a representative from the Glens Falls regional OSC office on 5/20/11.
4. 9/26/12 assistance in balancing 2011 AUD, but was told the 2011 AUD would be closed and if not corrected there is a good chance the 2012 AUD would be rejected.

We were cognizant of the AUD's not balancing and other accounting issues from the first year in office. Some of these issues were corrected and we continue to improve. We have copies of email correspondences supporting our requests for assistance from OSC.

See
Note 1
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TOWN OF MOHAWK

P.O. Box 415 / 2-4 Park Street
Fonda, New York 12068-0415
Phone: 518-853-3031/ Fax: 518-853-4730
Court: 518-853-8865

GREG RAJKOWSKI
Supervisor

KIMBERLY M. SULLIVAN
Town Clerk

WILLIAM D. HOLVIG
Highway Superintendent

Respectfully,

Gregory W. Rajkowski
Supervisor Town of Mohawk

CC; Andrea Piscione – bookkeeper
Bette Papa – Councilperson
Tony Bruno – Councilman
Jim Hoffman – Councilman
Bruce Pavlus - Councilman

APPENDIX B

OSC COMMENT ON THE LOCAL OFFICIAL'S RESPONSE

Note 1

We are aware of the Town's requests for assistance from our office and the assistance that has been provided. Our audit focused on the accounting records and reports that were maintained by the Town during the audit's scope period July 1, 2011, through December 31, 2012. It is the Town Supervisor's sole responsibility, as chief fiscal officer, to maintain accurate and complete accounting records.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the Town's 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. During our initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents, such as Town policies and procedures, Board minutes, and financial records, and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those area most at risk. We determined that risk existed within the Supervisor's accounting records and reports and, therefore, we examined the procedures over the Town's records and reports for the period July 1, 2011, through December 31, 2012.

To accomplish the objective of this audit and obtain valid and relevant audit evidence, our procedures included the following:

- We interviewed the Town Supervisor and bookkeeper, who were responsible for maintaining accounting records and reports, and reviewed Board minutes to obtain an understanding of the Town's accounting practices.
- We selected¹¹ five cash receipt transactions, five claims processing transactions, five payroll transactions, five budget amendments, and five cash transfers and reviewed them to determine whether they were recorded appropriately.
- We identified payroll transactions which resulted in taxpayer inequity and quantified the amount of these transactions which occurred during our audit period.
- We selected five revenues and expenditures¹² from each fund during our audit period and compared them to the detailed transaction history to determine whether they were reported accurately.
- We reviewed all cash transfers between bank accounts for four months during our audit period and reviewed corresponding journal entries to determine whether the transfers were appropriate and properly recorded.
- We traced five revenues and expenditures¹³ and all balance sheet accounts for each fund reported in the 2011 AUD to the accounting records to determine whether they were reported accurately.

¹¹ We used a spreadsheet formula to select a random sample of the various transaction types.

¹² We used a spreadsheet formula to select a random sample of revenues and expenditures from all revenues and expenditures reported for each fund.

¹³ We used a spreadsheet formula to select a random sample of five revenue and expenditure accounts reported on the AUD.

- We traced five revenues and expenditures¹⁴ for each fund, as reported in the Supervisor’s monthly reports prepared during our audit period, to the accounting records.

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.

¹⁴ We used a spreadsheet formula to select a random sample of five revenue and expenditure accounts contained on the Supervisor’s monthly reports.

APPENDIX D

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AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
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