



Town of Pittstown

Records and Reports

Report of Examination

Period Covered:

January 1, 2011 — September 17, 2012

2013M-5



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 Town costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Pittstown, 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 Town 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 Pittstown (Town) is located in Rensselaer County and has a population of approximately 5,700 residents. The Town Board (Board) is the legislative body and has overall responsibility for managing operations, including overseeing the Town's finances and establishing effective internal controls. The Board comprises four elected council members, and an elected Town Supervisor (Supervisor). The Supervisor is the chief executive officer and chief financial officer of the Town and has overall responsibility for the Town's accounting records. The Town's bookkeeper assists the Supervisor with maintaining the Town's accounting records.

The Town provides various services to its residents, including street lighting, highway and public facilities maintenance, and building, planning and zoning administration. The Town's budgeted appropriations for the 2012 fiscal year were approximately \$2.5 million for the general and highway funds, which were funded primarily with real property taxes, sales tax and State aid. Actual expenditures in 2011 in the general and highway funds were approximately \$2.6 million.

Objective

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

- Did the Supervisor maintain adequate records and reports to allow the Board to provide adequate oversight of the Town's financial operations?

Scope and Methodology

We examined the Town's internal controls and financial records and reports for the period January 1, 2011, to September 17, 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.

Records and Reports

The Board is responsible for the Town's overall financial management, including monitoring and evaluating financial condition. To adequately monitor and evaluate the Town's financial operations, it is essential for the Supervisor to maintain complete, accurate and timely accounting records and to report the Town's financial condition and activities, including filing an annual update document (AUD) with the Office of the State Comptroller (OSC). In addition, the Board must annually audit the books and records of the Supervisor.

The Supervisor can appoint a bookkeeper to assist with the maintenance of the accounting records. However, this does not alleviate the Supervisor's responsibility, as chief fiscal officer, to ensure financial activities are adequately accounted for and reported. The Supervisor must ensure that the bookkeeper performs basic accounting functions including preparing detailed and accurate accounting records and financial reports for the Board, and preparing accurate bank reconciliations to ensure the timely identification and correction of differences between cash balances and bank balances.

The Supervisor did not maintain adequate accounting records or provide the Board with accurate financial reports. Examples include balance sheets for operating funds that did not balance, with differences totaling \$339,000 and \$487,000 as of September 2012. In addition, cash on the Supervisor's monthly reports did not agree with bank balances or accounting records for any of the 17 months we reviewed, with differences ranging up to \$300,000 during 2011. In addition, the Supervisor's AUDs did not agree with bank records, resulting in, for example, general fund cash being over-reported by \$98,438 in 2011. Finally, the Board members did not audit the books and records of the Supervisor, which could have made them aware of differences between cash accounts and bank accounts and the numerous mispostings to the accounting system made by the former bookkeeper. The lack of adequate records, reports and annual audits makes it difficult for the Board to evaluate the Town's financial activities and can obscure the Town's true financial condition. Interviews with Board members revealed they could not determine the true current financial condition of the Town because they do not receive adequate financial information.

Accounting Records

The Supervisor is required by Town Law to maintain a complete and accurate account of the receipt and disbursement of all Town money. Accordingly, general ledgers, cash receipt and disbursement journals, and subsidiary revenue and appropriation ledgers must be

maintained in a complete, accurate, and timely manner. Furthermore, the Supervisor should provide accurate financial reports to the Board members so they can adequately monitor the Town's financial activities. It also is important that the Supervisor's office perform monthly reconciliations of bank statement balances and the cash balances per the Town records. Any differences must be promptly documented and resolved. In addition, these bank reconciliations should be made available for the Board's review.

The Supervisor's accounting records were not adequately maintained. For example, none of the balance sheets for any of the Town's funds balanced.¹ As of September 4, 2012, the town-wide general fund balance sheet's total of liabilities and fund balance exceeded assets by \$339,000. In addition, the town-wide highway fund balance sheet's total of liabilities and fund balance was less than total assets by \$487,000. The current bookkeeper could not determine why the balance sheets were out of balance. Furthermore, the Board did not receive reliable financial reports or any bank reconciliations. As a result, the Board could not determine if the recorded cash balances were accurate and in agreement with the reconciled bank balances. Without accurate and complete financial reports, the Board did not have the information necessary to adequately monitor the Town's financial activities.

We compared the cash balances on the Supervisor's reports to the Board to the bank reconciliations prepared by the former Bookkeeper² and to the cash balances in the accounting records.³ We found that the cash balances on the Supervisor's reports did not agree to the bank reconciled or cash balances in the accounting records for any of the 17 months reviewed. In 2011, the general fund's cash balance on the Supervisor's report did not agree to the former bookkeeper's bank reconciliation. The variances between reported balances and bank balances were \$62,000 for January 2011 and \$128,000 for December 2011. During the same period, the difference between the balances in the Supervisor's report and in the former bookkeeper's adjusted book balance was \$300,000 for January and \$28,000 for December.

We also reviewed the August 2012 bank reconciliation. The current bookkeeper, who was hired in August 2012, stated she could not arrive at the cash balances reported by the former bookkeeper. Therefore she re-performed the bank reconciliations for January through August 2012. However, at the end of our fieldwork, the August 2012 bank

¹ On a balance sheet, liabilities and fund balance are supposed to equal assets.

² The former Bookkeeper stopped working for the Town in June 2012.

³ We did these comparisons for all monthly reports that were available during our audit period (January 2011 to May 2012).

reconciliation still did not agree to the cash balance in the accounting records. The Town commingles the cash accounts for all funds⁴ in one checking account. The accounting records had a negative cash balance of \$29,000 while the adjusted bank balance was \$70,000, resulting in a \$99,000 discrepancy. The current bookkeeper has an extensive file of the adjustments and correcting entries she has made to address previous errors. However, she could not determine why the cash balances in the accounting records did not agree with the reconciled bank balance in August 2012.

We also examined the financial activity for the one checking account bank statement for all funds to determine if bank account activity agreed with the accounting records and was properly supported. We randomly selected the months of June 2011 and April 2012 for review. We tested all 13 deposits totaling \$291,000 for these two months and found they were recorded in the accounting records. We also randomly selected 20 disbursements from each of these test months totaling \$69,000 to see if they were recorded and properly supported. Except for two small disbursements that were not recorded in a timely manner, all disbursements were properly recorded and for legitimate Town purposes.

Financial Reporting

The Supervisor is required to prepare and file an AUD with OSC. The AUD is an important fiscal tool that provides the Board with necessary information to monitor Town operations and provides other interested parties with a summary of the Town's financial activities. Therefore, it is necessary for this information to be accurate.

We examined the AUD for the fiscal year ending on December 31, 2011 and found it contained several inaccuracies. For example, the general fund cash and cash in time deposits account balances were reported exactly the same on the 2010 and 2011 AUDs. It is highly unlikely for these balances to be exactly same from one year-end to the next. In addition, these cash account balances did not agree with the Supervisor's reports. The cash account for the general fund was reported in the AUD at \$105,842 as of December 31, 2010 and 2011, while the Supervisor's report for December 2011 had a general fund cash balance of \$69,840. In addition, the cash in time deposits account for the general fund was reported on the AUD at \$531,936 as of December 31, 2010 and 2011; however, the December 2011 bank account reconciliation prepared by the former bookkeeper shows a balance of \$433,498 for cash in time deposits, indicating cash was over-reported by \$98,438. Also, the town-wide highway fund's

⁴ The Town's funds are general, highway, street lighting, solid waste, and trust and agency.

contractual expenditure account for snow removal had a balance of \$135,892 in the accounting records; however, it was reported on the AUD at \$54,632.

Furthermore, the part-town general and highway funds, and the refuse and garbage fund each reported exactly the same amounts for fund balance in the years 2010 and 2011. Fund balance is the difference between the Town's assets and liabilities and represents the total accumulation of all annual operating surpluses and deficits since the beginning of the Town's operations. Each year's operating surplus or deficit is added to or subtracted from the amount of fund balance at the beginning of the fiscal year. Therefore, the account balances normally fluctuate from year to year. Because the records during our audit period could not be relied on, we were unable to determine the accuracy of the reported fund balance amounts on the AUD for the 2011 fiscal year.

The lack of an accurate AUD denies Town officials, taxpayers and other interested parties the ability to monitor and assess the Town's financial operations and financial condition. Interviews with the Board members revealed that they could not determine the true current financial condition of the Town because they do not receive adequate financial information.

Annual Audit

Town Law requires the Board to conduct or obtain an annual audit of the records and reports of any Town officer or employee who received or disbursed moneys on behalf of the Town in the preceding year. This annual accounting provides an added measure of assurance that financial records and reports contain reliable information on which to base management decisions and gives the Board the opportunity to monitor the Town's fiscal procedures. Indications that an audit was performed should be entered in the Board's minutes.

The Board did not audit, or cause to be audited, the records maintained by the Supervisor (which are prepared by the bookkeeper) during our audit period. Although the accounting records of other departments, such as the Justice Court and Town Clerk, were audited during our scope period, those of the Supervisor were not. Had the Board audited the Supervisor's records, it could have become aware that the cash account balances in the accounting records did not agree with reconciled bank account balances. In addition, the Board could have noticed the numerous mispostings made to the accounting system by the former Bookkeeper in a timely manner.

The Board's failure to examine accounting records and reports hinders its ability to maintain accountability over the Town's financial operations and develop safeguards to protect Town assets from loss,

waste or abuse. Without an annual audit, Town officials are at risk of failing to detect and correct errors, irregularities, or fraudulent activity in a timely manner.

Recommendations

1. The Supervisor should provide accurate and timely accounting records and reports to the Board each month including balance sheets, operating statements, and bank reconciliations.
2. The Supervisor should review the AUD prior to submission to ensure it is accurate, reasonable, and is supported by the accounting records.
3. The Board should audit the books and records of the Supervisor on an annual basis and document evidence of the audit.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

EDWIN KING
SUPERVISOR
MICHELLE HOAG
TOWN CLERK
JOHN COLARUSSO
COUNCILMAN
VERNA HANSEN
COUNCILWOMAN
JASON EDDY
COUNCILMAN
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TOWN JUSTICE
PAUL MACNAUGHTON
TOWN JUSTICE
PAUL WILEY
TOWN HISTORIAN

February 26, 2013

Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801

Re: Town of Pittstown
Report of Examination

Dear Sirs:

This letter is in response to your Report of Examination for the audit period from January 1, 2011 – September 17, 2012.

The Town of Pittstown would like to thank [REDACTED] for his support and guidance during this process.

Audit Recommendations:

1. The Supervisor should provide accurate and timely accounting records and reports to the board each month including balance sheets, operating statements and bank reconciliations.

Response:

Since hiring the current bookkeeper, the Supervisor has provided balance sheets with the operating statement for each month. Starting in March, bank reconciliation reports will be added to the monthly reports.

2. The Supervisor should review the AUD prior to submission to ensure it is accurate, reasonable, and is supported by the accounting records.

Response:

Starting in 2013, the Supervisor will review the AUD report prior to submission to ensure it is accurate, reasonable, and is supported by accounting records.

3. The Board should audit the books and records of the Supervisor on an annual basis and document the evidence of the audit.

Response:

Starting in 2014 at the Organizational Meeting, the Board will set a date to audit the books and records of the Supervisor; which will occur during the third quarter.

Sincerely,

Edwin R. King, Jr
Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial operations, Supervisor's records and reports, cash management, cash receipts and disbursements, justice court, sewer rents, Town Clerk revenues, building department revenues, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as Town policies Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases. During our assessment we determined the records and reports produced by the Town's financial management system were not reliable which we commented on in the body of this report.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected records and reports for further audit testing. Our audit included various procedures to gather evidence concerning our stated objective, as follows:

- We examined the 2010, 2011, and 2012 budgets to provide background for testing and documented Board members' assertions. We compared cash balances on the Supervisor's monthly reports to the bank reconciliations prepared by the former bookkeeper. We reviewed operating statements, including budget to actual comparisons, to document what reports are provided to the Board and to document inaccuracies in postings. We compared account lines on the Annual Update Document, which showed certain account lines unchanged from year to year.
- We examined balance sheets prepared by the current bookkeeper to document the extent of the former bookkeeper's mispostings. We examined bank reconciliations, bank statements, deposit records, and receipt summary reports to determine if financial activity was recorded in the accounting records.
- Our selections for cash receipt receipts and disbursement testing were made using the random number generator in our spreadsheet application.
- We interviewed Town personnel where necessary and based our conclusions on our test results, and observation of the records available.
- We interviewed Town official and reviewed Board minutes to determine if the Board conducted or obtained annual audits of the records and reports of officers or employees who received or disbursed moneys.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
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