



Town of Ellenburg

Justice Court and Town Clerk Financial Operations and Wind Power Revenues

Report of Examination

Period Covered:

January 1, 2012 — February 28, 2013

2013M-190



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 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 Ellenburg, entitled Justice Court and Town Clerk Financial Operations and Wind Power Revenues. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Ellenburg (Town) is located in Clinton County. The Town Board (Board) is the legislative body, comprising the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's operations and finances, which includes adopting the annual budget and developing long-term financial plans. The Supervisor is both the chief executive and chief financial officer of the Town and is elected for a two-year term. The Town provides various services to its residents which include maintaining and improving Town roads, snow removal, recreation and cultural activities, and general government support.

The Town has two elected Justices, Justice Kenneth Prevo and Justice Kenneth Lafave, who currently preside over the Court. Justice Jeffrey Matthews also presided over the Court during our audit period. The Justices collected approximately \$145,000 in fines, fees, and surcharges during our audit scope period. The Town also has an elected Town Clerk (Clerk) who conducts work-related transactions out of her home. During our audit scope period, the Clerk's office collected about \$27,000 in receipts that were deposited into the Clerk's official bank account.

The Town's revenues have significantly increased in recent fiscal years from the construction of a windpark within the Town's boundaries. The Town received about \$2.9 million in wind power-related revenues during the period January 1, 2006, through February 28, 2013.

Scope and Objectives

The objectives of our audit were to review the Town's financial operations and the use of the wind power revenues for the period January 1, 2012, to February 28, 2013. To obtain additional information for background and perspective, we also reviewed all wind power payments the Town received, which date back to 2006. Our audit addressed the following related questions:

- Are internal controls over the Justice Court's and Town Clerk's financial activities adequately designed and operating effectively to ensure the proper accounting of cash receipts and reporting of financial activity?
- Has the Board established a multiyear financial and capital plan to address the increases in revenues from hosting a windpark?

Audit Results

The internal controls in the Justice Court were not adequately designed and operating effectively. We found a cash shortage of \$1,814 in one of the Justice's accounts and identified 11 missing receipt

numbers in the computer system for which there was no documentation. Further, all three Justices either performed inadequate bank reconciliations or did not perform them at all. Although the Board audited the Justices' records, the audits failed to identify the control weaknesses, the cash shortage, or the lack of bank reconciliations. Additionally, the Clerk did not establish adequate controls over her financial activities and the Board did not establish effective monitoring controls. The Clerk's records were not current and she had not completed a bank reconciliation in at least two years. In two separate months during our audit period, the Clerk's bank account was overdrawn, yet as of February 28, 2013, the account had about \$1,100 more in deposits than accounted for in the records. This serious lack of controls places Town assets at an increased risk of mismanagement or theft.

We also found that the Town has applied its substantial revenues from wind power to reducing the taxpayers' burden and increasing the Town's unassigned fund balance. The tax levy decreased from about \$659,000 in 2006 to about \$302,000 in 2013 (a 54 percent reduction). Although we commend Town officials on their use of these moneys to reduce the tax levy and build fund balance, we urge the Board to consider developing a comprehensive multiyear financial and capital plan for the use of the wind power revenues. Such a plan is critical for Town officials to properly manage this ongoing influx of moneys.¹ In addition to the general fund's unassigned fund balance of \$251,000 at the end of fiscal year 2012, the Town has separately maintained another \$334,000 in various bank accounts, most of which did not have a clear purpose. A long-term financial and capital plan will help Town officials define, meet, and adjust future goals, such as a healthy fund balance, capital improvements, funding of services, and further reductions in the tax levy.

Comments of Local 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 generally agreed with our recommendations and indicated they planned to initiate corrective action.

¹ Sources include host community fees, payments in lieu of taxes (PILOTs), royalties from the two companies that operate the wind turbines, and related payments.

Introduction

Background

The Town of Ellenburg (Town) is located in Clinton County and has approximately 1,700 residents. The Town Board (Board), which is the legislative body, comprises the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's operations and finances, which includes adopting the annual budget and developing long-term financial plans. The Supervisor is both the chief executive and chief financial officer of the Town and is elected for a two-year term.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, recreation and cultural activities, and general government support. The Town's budgeted appropriations in the 2013 fiscal year were \$637,517 for the general fund and \$608,680 for the highway fund. Town operations are funded primarily with wind power revenues, real property taxes, and State aid.

The Town has two elected Justices, Justice Kenneth Prevo and Justice Kenneth Lafave, who currently preside over the Court. Justice Jeffrey Matthews also presided over the Court during our audit period.² The Justices remitted about \$145,000 in fines, fees, and surcharges to the Supervisor during our audit period, to be distributed between the Town and New York State. The Town Clerk (Clerk) is elected to a two-year term and conducts official business out of her home. During our audit scope period, the Clerk's office collected about \$27,000 in receipts that were deposited into the Clerk's official bank account.

The Town's revenues have significantly increased in recent fiscal years from the construction of a windpark within the Town's boundaries. The Town received about \$2.9 million in wind power-related revenues during the period January 1, 2006, through February 28, 2013.

Objectives

The objectives of our audit were to review the Town's financial operations and the use of the wind power revenues. Our audit addressed the following related questions:

- Are internal controls over the Justice Court's and Town Clerk's financial activities adequately designed and operating effectively to ensure for the proper accounting of cash receipts and reporting of financial activity?

² Until December 31, 2012

- Has the Board established a multiyear financial and capital plan to address the increases in revenues from hosting a windpark?

**Scope and
Methodology**

We examined the financial operations in the Justice Court and Clerk’s office and reviewed the Town’s long-term plan for wind power revenues for the period January 1, 2012, to February 28, 2013. To obtain additional information for background and perspective, we also reviewed all wind power payments the Town received, which date back to 2006.

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 is 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 Clerk’s office.

Justice Court and Town Clerk

A well-designed system of internal controls ensures that cash received by the Justice Court and the Clerk is safeguarded and that financial activity is properly recorded and reported. These officials are responsible for the accounting and reporting of their financial activities and, accordingly, must maintain complete and accurate accounting records, reconcile cash activity to bank statements, and perform accountability analyses. Detailed receipts are essential for maintaining a record of all moneys received and for tracking the amount and form of cash from the point of collection through to deposits and bank statements. Monthly reconciliations of bank accounts and accountability analyses enable the Court and Clerk to verify the accuracy of financial records and establish control over cash. Additionally, the Board is required to perform an annual audit of these officials' records or engage an independent public account to do so.

Neither the Justices nor the Clerk had established adequate controls over cash receipts, completed bank reconciliations, or performed monthly accountability analyses to account for receipts on deposit. We found an unexplained cash shortage of \$1,814 in Justice Prevo's account and 11 missing receipt numbers for which there was no documentation. Further, the Clerk's records were inadequate, and \$1,100 in deposits was not accounted for. The Clerk also did not complete bank reconciliations or issue properly detailed receipts. The Board was unaware of these control deficiencies because it did not conduct the required audit of the Clerk's records. Although the Board did document an audit that it conducted of the Justice Court, that audit did not identify these control deficiencies or the resultant shortage and missing receipts.

Justice Court

Town Justices are responsible for adjudicating all cases brought before the Court, and maintaining sufficient records to render a full accounting of all moneys received, disbursements made, and the balance of moneys remaining. Each of the Town's two current Justices is assisted by a clerk.

The Justices did not always perform bank reconciliations or accountability analyses, and cash receipts were not always deposited intact and in a timely manner. Justice Prevo had not established adequate controls over cash receipts and had a cash shortage of \$1,814 at the time of our audit. Additionally, the computer data were not always reliable because the Court's software allowed recorded cash receipts to be altered or deleted, resulting in missing receipts that could not be quantified or traced to payers or to Court bank deposits.

Cash Receipts – Prompt and accurate recording of moneys received is essential to properly account for and safeguard Court assets. Justices are required to issue receipts to acknowledge collection of all moneys paid to the Court. Each receipt should document the date, person paying, amount paid, form of payment (currency, check, or money order), and purpose of the payment (preferably referencing the case or ticket number), and should be signed by the person issuing the receipt to establish accountability. Receipts produced from the computerized accounting software programs should be issued in consecutive numerical sequence and a hard copy retained as evidence of collection. Receipts should be recorded in the Justice’s accounting system promptly upon issuance to acknowledge collection. Justices are required to deposit intact (in the same amount and form of payment as received) all moneys collected by the Court into official bank accounts as soon as possible, but no later than 72 hours from the date of receipt, excluding Sundays and holidays. Deposited amounts should always agree with amounts received and recorded.

We tested cash receipts and deposits for each of the three Justices who presided over the Court during the audit period, for the months of January 2012, June 2012, December 2012, and February 2013, and determined that the deposits of credit card receipts were timely and intact for all three Justices. However, our initial review determined that Justice Prevo’s cash and check deposits were neither timely nor intact, and, therefore, we examined all of his cash collections. During the scope period, Justice Prevo and his clerk collected a total of \$39,082 in cash and checks; however, \$1,814 of the receipts were not deposited in the Justice’s bank account. Upon our inquiry, neither Justice Prevo nor his clerk provided an explanation for the shortage. We also found minor instances of receipts not being deposited in a timely manner for Justice Matthews and Justice Lafave, which we discussed with Justice Lafave and his clerk so corrective action could be taken.

We also found that the computerized data was not always reliable because the software used by the Court allowed the record of cash receipts to be altered or deleted without adequate supporting documentation. We reviewed 179 computerized receipts for cash³ totaling \$21,485, collected by Justice Prevo or his clerk, to verify that the cash received was accounted for and the receipts were issued in sequential order, and we identified 11 cash receipt numbers that were not listed. These missing numbers did not pertain to dismissed cases and we were not included on the monthly report submitted to the State Comptroller’s Justice Court Fund (JCF). Justice Prevo’s clerk told us

³ We selected for review the months of January, June, and December 2012 (the beginning, midpoint, and end of the year) and February 2013 (the last month of our audit scope period).

he deleted the records from the computer system in error; however, neither the Justice nor his clerk maintained documentation to support the deleted records. Therefore, there is an increased risk that payments could be collected and misappropriated without detection.

We reviewed bail reports for the three Justices in our scope period and found that the bail report for Justice Prevo, which covered his tenure as Justice since January 1, 2008, had a negative balance of \$7,500 when the actual balance should have been a positive \$2,500, a difference of \$10,000. This discrepancy occurred because a \$10,000 bail receipt was not posted to the computer when it was received, but was recorded as a disbursement when the bail was returned to the defendant. Justice Prevo and his clerk were unable to find the case file and could not provide documentation to show that the bail transactions were legitimate Court transactions. We did verify that the canceled check had been made out to someone other than the Justice or his clerk. Although the Justice and his clerk were aware of the discrepancies, they did not perform any reconciliations of the bail account and continued to rely on the incorrect computerized data for determining the status of receipts, disbursements, and cash balance. Without accurate and reliable records, the Justices cannot know how much cash is in their accounts and, further, there is a risk that bail receipts are not properly credited to defendants.

Monthly Reconciliations – A Justice is personally responsible for moneys received by the Court and is liable for money paid to the Court that cannot be accounted for. Therefore, it is essential that each Justice maintain a current, accurate, and complete list of all moneys held. Justices are required to account for cash receipts and disbursements from month to month by reconciling the bank account activity and balances to the Court records. They also should perform a monthly accountability analysis comparing cash on hand and on deposit in the bank to detailed lists of Court liabilities, such as outstanding bail and amounts due to the JCF.⁴ The Court’s liabilities, such as bail held on pending cases and unremitted fines and fees, should equal the Justices’ available cash.

During the scope period, all three Justices either performed inadequate bank reconciliations or did not perform them at all. Cash records were not adequate because the deposits were not always recorded and running cash balances were not calculated. Because neither Justice Prevo nor his clerk performed bank reconciliations or accountability analyses, they were unaware of the \$1,814 cash shortage in the Justice’s account as of February 28, 2013. The two current Justices

⁴ Justices are responsible for filing a monthly report of all Court transactions to the JCF by the tenth day of each month, including all Court activities for the previous month.

and their clerks said they were unaware of the need to perform these monthly procedures. Without adequate cash records, monthly bank reconciliations, and liability accounting, the Justices cannot properly maintain and monitor their cash balances.

Town Clerk

The Clerk is responsible for receiving, recording, depositing, disbursing, and reporting all moneys collected in an accurate and timely manner. A well-designed system of internal controls ensures that money received by the Clerk is safeguarded and that the Clerk's financial activity is properly recorded and reported. Receipt information should be sufficiently detailed to determine the amount paid, who made the payment and for what reason, the form of payment (cash or check), and the date it was paid. The Clerk should issue duplicate press-numbered receipts that indicate this level of detail when no other evidence of receipt is available (for example, an issued license). These processes enable Town officials to trace transactions from the point of collection through the accounting records to bank deposits and monthly bank statements. Additionally, deposits should be timely, intact, and easily traceable to the accounting records. The Clerk must remit all moneys received to the appropriate entities that include the Supervisor and various State agencies. Finally, the Board has oversight responsibilities which include auditing the books and records of the Clerk at least annually.

The Clerk posted about \$27,000 in receipts and disbursements during the scope period to the computer records, including approximately \$12,000 in hunting licenses, over \$11,000 in franchise fees, and varying amounts for dog licenses, marriage licenses, and other items. The Clerk remitted approximately \$15,000 to the Town Supervisor with the remainder being remitted to State agencies including the Department of Environmental Conservation, the Department of Health, and the Department of Agriculture and Markets.

The Board did not establish adequate internal controls over the Clerk's financial activities. The Clerk did not issue receipts for transactions or document the method of payment and did not record sufficient detail about the cash received in her cash book. She did not issue receipts and retain copies as a record, did not record the method of payment, and did not always record the transaction date. The Clerk also did not retain cash deposit slips. Although we obtained information from the bank that included deposit slips, because the Clerk did not always record sufficiently detailed information about her transactions we were unable to trace all the collections to the deposits appearing on the bank statements to determine if they were timely and intact.

Additionally, our review of the Clerk's records and bank statements found about \$1,100 on deposit in the Clerk's bank account as of February 28, 2013 that was unsupported by available records. Further, her account was overdrawn for about two months during 2012.⁵ There was no documentation of bank reconciliations, which the Clerk told us she had not performed in at least two years. The Clerk could not explain how the account came to be overdrawn and told us she deposited her own money into the Town Clerk's official bank account to rectify the shortages; however, she kept no records of these deposits, which she said were all in cash. Had sufficient records been maintained and regular bank reconciliations performed, the Clerk may have been able to identify the reasons for the shortage and prevent it from occurring. Because of the many deficiencies in the Clerk's records, Town officials have limited assurance that all financial transactions are accounted for.

Annual Audit

Town Law requires the Board to annually audit the Clerk's records and reports, and every Town Justice is required to present his/her records and docket at least once a year to the Town to be examined by the Board or a public accountant. The audit is an important internal control to independently verify that the records are maintained in accordance with established procedures, transactions are properly recorded, and cash is properly accounted for. Board members should require records (either manual or computerized) to be maintained by Court personnel who receive and disburse moneys, including cash receipt and disbursement records and supporting documents, bank statements, monthly reconciliations of cash book balances and bank balances, and reports to applicable government agencies.

The Board did not audit the Clerk's records or engage an independent accountant to do so, thereby neglecting an important monitoring control. Such an audit could have identified the deficiencies in the cash records, the lack of bank reconciliations, and the deposits that were not supported by the Clerk's accounting records. As a result, the Board and the taxpayers have limited assurance that the Clerk's records are accurate and complete, and there is an increased risk that moneys are not properly accounted for or that errors or irregularities could occur and go undetected.

Although the Board did perform an audit of the Justices' 2012 records, the audit was ineffective because it failed to identify the lack of bank reconciliations and accountability analyses and the inadequacy of the cash records. The Supervisor told us that the Board was still learning how to conduct a proper and effective audit.

⁵ As of July 31, 2012, the account was overdrawn by \$216 and as of August 15, 2012, by \$259.

Recommendations

1. The Justices should ensure that all receipts are deposited in a timely manner and intact.
2. The Justices should ensure that the collection of moneys is receipted with press-numbered receipts and promptly entered into the Court's records.
3. The Justices should institute automated and/or procedural controls to prevent the undocumented modification or deletion of computerized receipt records.
4. The Justices should maintain adequate cash records to ensure that proper bank reconciliations can be performed.
5. Justice Prevo should ensure that the bail records are complete and up to date.
6. The Justices should perform month-end accountability analyses to ensure that there is sufficient cash to cover the outstanding fines, fees, and bail collected but not paid out.
7. The Board should perform or contract for an effective annual audit of the Justice Court and the Clerk.
8. The Clerk should perform monthly bank reconciliations.
9. The Clerk should keep detailed records of receipts including the form of each deposit (cash or check).

Wind Power Revenues

One of the Board's important oversight responsibilities is to plan for the future by setting reasonable long-term priorities and goals. To fulfill this responsibility, it is important for management to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. These projections must take into consideration known factors, such as collective bargaining agreements, recurring expenditures, and any future capital projects. By formulating appropriate projections, the Board can make well-informed and supported decisions regarding services and capital needs. For example, if Town officials anticipate building or infrastructure renovations in the coming years, the Board can legally establish reserves for such purposes and plan appropriately for the funding of those reserves.

Although we found that the Town's uses of its wind power revenues were reasonable, the Board does not have a comprehensive, multiyear financial and capital plan for these revenues and did not have other formal processes in place to adequately address the Town's long-term operational and capital needs.

Currently, there are 70 wind turbines operated by two companies within the Town's boundaries. Both companies remit annual payments to the Town for host community fees and payments in lieu of taxes (PILOTs). The annual payments are based on the number of operating wind turbines multiplied by contractually established rates, and the payments are periodically adjusted for inflation. The Town receives the payments as long as the turbines are in operation. The Town has also received various payments for permits and royalties from the two companies that operate the wind turbines. Since 2006, when the Town started receiving these payments, to the end of the scope period, the Town received nearly \$2.9 million in host community fees, PILOTs, royalties, and related payments. In 2013, the Town is due to receive \$88,560 in a new PILOT from the second company that will increase the total annual payments to about \$627,000. The Town allocated \$500,000 of these wind power revenues to the 2013 operating budgets of the general and highway funds.

We found that the Town used its wind power revenues to reduce the tax levy of the general and highway funds and to increase the general-fund surplus fund balance. The property taxes levied for the operating budgets of the general and highway funds were reduced by more than

half since the Town started receiving wind power payments. In 2006 the total taxes levied for the general and highway funds were about \$659,000; in 2013 the taxes were about \$302,000, a reduction of 54 percent. The unassigned fund balance in the Town's general fund increased from about \$13,000 in 2011 to about \$251,000 in 2012. We commend Town officials for their reasonable uses of these significant operating fund revenues.

However, the Town also deposited revenues in six bank accounts, totaling about \$334,000 at the end of 2012, which did not have a clearly defined purpose. These moneys included about \$112,000 in a money-market account for which there was no documented purpose other than savings, about \$91,000 in another money-market account called the "Building Fund Reserve" that was set aside for unspecified future renovations to the Town Hall, and about \$41,000 in an account called the "Youth Recreation Fund Reserve" that was incorrectly accounted for in an enterprise fund.⁶ Neither of the accounts labeled as reserves had been formally established as reserves by Board resolution. By holding significant amounts in various accounts that are not included in general-fund budgeting, Town officials run the risk of these moneys being used for unintended purposes, or simply lying idle instead of being used productively.

The Town did not have a comprehensive long-term plan to identify uses for these various funds, including future capital needs. For example, such a plan could identify specific building renovations and associated costs for which the Board could establish a formal reserve within the general fund. A comprehensive plan that is reviewed and updated annually will allow the Town to manage the use of its ongoing wind power revenues, and will provide a means for soliciting public input and establishing practical goals.

The Supervisor said he plans to conduct a series of meetings to involve the public in discussions about the wind power revenues and how to use them in future years.

Recommendations

10. The Board should ensure that all wind power funds are accounted for in proper funds and that reserves are legally established for capital improvements or other planned purposes, as appropriate.
11. The Board should consider developing comprehensive multiyear financial and capital plans to provide a framework for future budgets, managing future capital needs, and determining the most prudent use of future wind power revenues.

⁶ An enterprise fund is used to account for activities for which a fee is charged to external users for goods or services (for example, an electric utility).

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF ELLENBURG
CLINTON COUNTY, NEW YORK
P.O. BOX 22
ELLENBURG CENTER, NEW YORK 12934
PHONE: 518-594-7340
FAX: 518-594-3657

Supervisor: David Leonard

Town Clerk: Thelma LaBombard

Town Attorney: James Coffey

Council Members

Gerald Peets, Deryl Gregory

Richard Trombley Jr., Dennis LaBombard

October 1, 2013

In response to the recommendations made by the Auditors of the State Comptroller's Office for Justices and Town Clerk.

Justices

1. Since the audit both Justices are depositing all monies within the required time period.
2. The Justices are now using a pre-numbered cash receipt book as well as their computer accounts.
3. The Justices are in the process of instituting a software upgrade to their computer system to address the issues brought up by the Auditors.
4. With the pre-numbered cash receipts book and a computer upgrade this should facilitate those proper bank reconciliations will be performed.
5. Both Justices have set up designated bank accounts for bail money.
6. Both Justices are performing end of the month reconciliations required which will facilitate the month end analysis, ensuring there is sufficient cash to cover fines, fees and bail.
7. The Town Board is looking into hiring an outside accountant to perform an annual audit on the Justice Courts.

Town Clerk

1. The Town Clerk having been informed of the recommendations by the Auditors is addressing the issues of the monthly bank reconciliations and keeping a cash receipt book for all transactions.
2. The Board will be performing an annual audit on the Town Clerk. The Auditors provided the Comptroller's proper forms for that Audit.

Recommendations For the Wind Power Funds

Since 2006, the Town Board has set aside one year revenues from the Wind Farms as a security in case of some unexpected decommissioning of the Wind Farm. That money is then used in the next year's budget, which has been applied for property tax reduction. The account is referred to as a Savings Account. It is not a Capital Account, but has been used as stated. When Hurricane Irene hit there was considerable damage to many town roads. Much of the money in that savings account was used for emergency repairs. Had that money been in a restricted Capital Account it would have not been available.

There are other accounts called Capital Reserves, for Youth Commission Recreation Park, Highway Equipment Fund and Capital Building Fund. The money in these accounts are used strictly for those purposes. The Auditors recommended that some of those accounts be a designated Capital Account, which eliminates any other use at any time. The Town Board will be discussing which accounts may be designated in that category.

The Town Board will be holding a series of Town Hall meetings to discuss windmill money and its uses, future capital needs and a long term plan for our town.

These are the actions taken so far by the Town to implement the recommendations made by the Comptroller's Auditors. We want to thank the Auditors for working with Town Officials to bring to our attention the changes necessary to be in compliance with state regulations and for being available to answer our questions and explain the proper procedures needed to make those changes.

David Leonard
Town of Ellenburg 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 condition and oversight, control environment, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents such as Town policies, Board minutes, and financial records and reports. 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 objectives and scope by selecting for audit those areas most at risk. We selected the financial operations in the office of the Town Clerk and the Justice Court and long-term planning for wind power revenues for further review.

In order to review the internal controls over the Justice Court's financial operations, we performed the following steps:

- We interviewed Town officials, Town Justices, and Court clerks to obtain an understanding of Justice Court operations and the control environment.
- We reviewed the court receipts from the computer-based cashbook reports and compared the receipts to bank deposits in original bank statements to determine if deposits were intact and timely. We also reviewed receipt number sequencing to determine if there were gaps in the sequence. We interviewed Justice Prevo and his clerk to determine the reason for gaps in the receipt number sequencing.
- We obtained the computerized cashbook report of receipts for all three Justices for the period January 1, 2012 through February 28, 2013, and compared the receipts recorded to the receipts reported monthly to the JCF.
- We scanned original bank statements for the period January 1, 2012, through February 28, 2013, to determine that they were complete and that they had had no apparent erasures or alterations.
- We calculated the ending cash balances by analysis of receipts and disbursements for Justice Matthews and Justice Lafave and compared the cash balances to the reconciled bank cash balances that we calculated. Due to deposits that were not intact or timely, we calculated the expected cash balance at February 28, 2013, for Justice Prevo based on February 2013 receipts and the determined bail balance. We compared the expected cash balance to our calculated reconciled bank balance at February 28, 2013.
- We obtained bail balance records to determine the reasonableness of the bail balance recorded.

- We judgmentally selected the receipts and case files for the months of January 2012, June, 2012, December 2012, and February 2013 to determine if the case files were adequate and were properly supported by dockets and related information. We also tested the case files to determine that the cases and money received were properly reported to the JCF.
- We obtained the 2012 Board audit reports for the Justice Courts and reviewed the findings in the reports to determine the adequacy of the audit.
- We reviewed bank statements and copies of canceled checks and compared disbursement payments made with amounts reported to the JCF. Canceled check images were not provided with the bank statements; therefore, we obtained canceled check images from the bank for Justice Prevo for the scope period January 1, 2012, through February 28, 2013.
- We used the checkbook registers in conjunction with bank statements and deposit and disbursement detail obtained from the bank to reconstruct account activity during the audit period. Receipts were obtained from the computerized cashbook reports to reconstruct receipt activity during the audit period.

To review the internal controls over the Town Clerk's financial operations, we performed the following steps:

- We interviewed the Clerk to gain an understanding of her procedures for collecting, recording, depositing, disbursing, and reporting financial transactions.
- We interviewed the Supervisor to gain an understanding of the monitoring controls in place over the Clerk's financial activities.
- We reviewed the Clerk's cash records for accuracy and completeness.
- We reviewed the Clerk's deposits to determine if they were timely and intact.
- We reviewed the reports that the Clerk submitted to the Board and her cash records and bank statements.
- We performed analyses of the Clerk's collections and disbursements and compared them with bank statements and reports.

To review the Town's use of wind power revenues, we performed the following procedures:

- We interviewed Town officials to gain an understanding of the impact of the wind power revenues; this included inquiries about the preparation of multiyear financial and capital plans.
- We reviewed the host community agreements and PILOT agreements and the payments related to the agreements. To acquire background information and perspective, we extended our scope period back to 2006, the first year in which the Town started receiving payments related to wind power.

- We reviewed the 2012 and 2013 budgets to determine the allocation of the wind power revenues to the operating expenditures of the general and highway funds.
- We interviewed Town officials and reviewed Board meeting minutes, bank statements, and accounting records to identify uses of the wind power revenues.
- To assess fund balance and changes in the tax levy, we examined financial data from the Town's annual update document for fiscal years 2006 through 2012.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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