



Town of Altona

Apparent Misappropriation of Cash Receipts and Supervisor's Records and Reports

Report of Examination

Period Covered:

January 1, 2009 — May 31, 2013

2013M-282



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2014

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 Altona, entitled Apparent Misappropriation of Cash Receipts and 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Altona (Town) is located in Clinton County and has a population of approximately 2,900 residents. The Town provides highway, court, park and general government services to its residents. The 2013 Town budget totaled \$1.15 million for all funds, including special districts.

The Town is governed by an elected five-member Town Board (Board), comprising a Town Supervisor (Supervisor) and four Board members. The Board is responsible for managing Town operations and overseeing the Town's financial affairs. The Supervisor, as both chief financial officer and chief executive officer, is responsible for the Town's financial operations. The Supervisor appoints a secretary to the Supervisor who primarily functions as a bookkeeper to maintain the accounting records.

Scope and Objective

The objective of our audit was to review the Town's cash receipts and assess the completeness and accuracy of the Town's records and reports for the period January 1, 2009 through May 31, 2013. Our audit addressed the following related questions:

- Were all cash receipts properly accounted for and deposited in a timely manner in the Town's bank account?
- Did the Supervisor maintain complete and accurate accounting records and reports to allow the Board to monitor the Town's financial operations?

Audit Results

Due to deficiencies in the Town's handling of cash receipts, combined with inaccurate records, insufficient interim reports and a lack of proper fiscal monitoring, the Board was not aware that \$23,532 in collections was missing.

We found that a total of \$18,586 in park and recreation fees, \$4,146 in code enforcement fees and \$800 in Town Hall rental fees was not deposited and cannot be accounted for. Additionally, the bookkeeper¹ allowed cash receipts to remain on hand for weeks or months before deposit, including five undeposited checks totaling nearly \$338,000. The bookkeeper also altered copies of 19 park-fee receipts to show a total amount of nearly \$10,709 lower than what the park manager actually remitted. These irregularities may have been prevented had the Board and Supervisor segregated the bookkeeper's

¹ The bookkeeper served until May 30, 2013, after which her duties were assumed by an interim bookkeeper. All mentions of "the bookkeeper" in this report refer to the former individual, not the subsequent interim bookkeeper.

duties or, alternatively, provided for supervisory oversight of her work. Because a significant amount of funds was unaccounted for, we have referred these findings to law enforcement officials.

On August 26, 2013, subsequent to completion of our fieldwork, the bookkeeper repaid the full \$23,532 that was missing and on November 12, 2013 signed a statement claiming that she had changed receipts and borrowed money with the intent to pay it back.

Furthermore, the Town does not have complete, accurate and up-to-date accounting records. The Supervisor did not perform proper monthly bank reconciliations during our entire audit period; we identified a discrepancy of \$14,364 between the bank statement and accounting records for one of the Town's 11 bank accounts. The Supervisor also filed the required annual update document with the State Comptroller's Office months after the due date for both the 2011 and 2012 fiscal years and did not provide the Board with sufficient interim financial reporting. As a result, the Board did not have the information needed to properly monitor and manage Town operations. These serious deficiencies in the Town's recordkeeping, reporting and management oversight facilitated the apparent misappropriation of funds as detailed in this report.

Comments of Local Officials

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

Introduction

Background

The Town of Altona (Town) is located in Clinton County and has a population of approximately 2,900 residents. The Town provides various services to its residents, such as highway, court, park and general government services. The 2013 Town budget totaled \$1.15 million for all funds, including special districts. Town expenditures are funded by real property taxes, State aid, wind power revenues and user fees.

The Town is governed by an elected five-member Town Board (Board), comprising a Town Supervisor (Supervisor) and four Board members. The Board is responsible for general oversight of the Town's fiscal activities and safeguarding its resources. The Supervisor, as both chief financial officer and chief executive officer, is responsible for the Town's financial operations, including maintaining the accounting records for all receipts, disbursements and account balances; reconciling the accounting records to the bank statements; filing the annual reports with the Office of the State Comptroller; and providing the Board with timely and accurate financial information. The Supervisor appoints a secretary to the Supervisor who primarily functions as a bookkeeper² to maintain the accounting records.

The Town's revenues have been significantly affected in recent fiscal years because of the construction of a 63-turbine windpark within the Town's boundaries. In total, the Town has received more than \$2.3 million in wind power-related revenues during the period January 1, 2009 through May 31, 2013.³

The former bookkeeper left Town employment on May 30, 2013. Subsequent to completion of our audit fieldwork, on August 26, 2013, she made a payment to the Town for the entire amount of the missing moneys. On November 12, 2013, the former bookkeeper provided a statement to members of the Comptroller's Investigations Unit claiming that, between 2009 and leaving office on May 30, 2013, she changed some Town receipts and borrowed Town funds with the intention of repaying them.

Objective

The objective of our audit was to review the Town's cash receipts and assess the completeness and accuracy of the Town's records and reports. Our audit addressed the following related questions:

² The bookkeeper served until May 30, 2013, after which her duties were assumed by an interim bookkeeper. All mentions of "the bookkeeper" in this report refer to the former individual, not the subsequent interim bookkeeper.

³ From payments in lieu of taxes, host community fees and royalty payments from the operators of the wind turbines

- Were all cash receipts properly accounted for and deposited in a timely manner in the Town’s bank account?
- 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 Town’s cash receipts and the Supervisor’s records and reports for the period January 1, 2009 through May 31, 2013.

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 C 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 B, have been considered in preparing this report. Town officials generally agreed with our recommendations and have initiated, or 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.

Cash Receipts

The Supervisor, as chief financial officer of the Town, is responsible for the collection and custody of all money belonging to the Town. The Board is responsible for establishing written policies and procedures for cash receipts that address the duties, procedures, records and oversight required to safeguard Town funds. It is important for employees' duties to be segregated so that no one individual controls most or all phases of a transaction. Where duties cannot be segregated, the Board should establish supervisory review or other compensating controls to mitigate risk.

While Town Law requires moneys collected to be secured and deposited within certain timeframes, good business practice indicates that moneys should be deposited as soon as possible after collection to reduce the risk of loss or theft. Duplicate press-numbered receipts should be issued to all customers and/or remitting departments, indicating when and from whom payment was received and the form (i.e., cash or check) in which it was received. In addition, accountability records, such as reconciliations of receipts to daily collection sheets, should be prepared and retained on file.

The bookkeeper performs all the duties related to receiving and processing cash receipts with little oversight by the Supervisor, such as collecting cash, preparing and making deposits and recording receipts for money received by the Supervisor's office, including remittances from the park manager and code enforcement officer. The Supervisor does not review duplicate receipt books, revenues recorded in the central accounting system or bank reconciliations.

Because the bookkeeper handled most key financial activities without supervisory review, a total of \$23,532 in collections was not deposited and cannot be accounted for by Town officials. Although the Board implemented procedures to issue receipts and segregate cash functions, these procedures did not effectively segregate the bookkeeper's duties, ensure the consistent use of confirming receipts or provide for independent review of the bookkeeper's work. More than half of the cash collected by the bookkeeper on behalf of the Town during the audit period was not deposited in a timely manner, in some cases weeks or months after receipt. Furthermore, supporting documentation related to receipts handled by the bookkeeper was altered to lower the amount of money initially noted as received. The Board's failure to provide proper oversight of the bookkeeper's financial activities resulted in the apparent misappropriation of Town moneys.

Collection and Accounting

Town officials are responsible for establishing procedures to properly safeguard cash receipts from loss or theft. For example, the same person should not be responsible for the collection, custody and recording of receipts and the reconciliation of bank statements with the Town's records. Issuing duplicate receipts can help ensure that cash transactions are properly documented and recorded. Receipts should indicate when payment was received, from whom and the form of payment (i.e., cash or check). In addition, receipt records should be retained on file.

We reviewed 314 cash receipts, totaling \$3,882,272 during our audit scope period, that were received and processed by the Supervisor's office including park and recreation fees, Town Hall rentals, code enforcement fees, wind power-related payments, snow and ice contract payments, State aid and Consolidated Local Street and Highway Improvement Program (CHIPS) aid.⁴ While we found no discrepancies in the amounts receipted, deposited and recorded in the central accounting system for wind power payments, and contractual payments for snow and ice removal, State aid and CHIPS, there were discrepancies with the collection and accounting for park and recreation fees, code enforcement fees and Town Hall rentals, amounting to approximately \$23,500 that was unaccounted for.

Park and Recreation Fees — The park manager oversees the activities of the Town park and is responsible for handling collection of fees for camp lot rentals, day passes and utilities from customers. The park manager issues a triplicate press-numbered receipt, with one copy for the customer, one copy retained in the receipt book and the other copy for the bookkeeper to establish and maintain accountability for moneys she collected. The park manager also maintains a log of collections, including the date, description of collection and the amount of fees received. The park manager remits the moneys she receives to the bookkeeper for deposit and is provided a receipt from the bookkeeper for the remittances. At the end of the summer season,⁵ the park manager provides the Board with a report of her collections for the whole season. The Supervisor told us he does not reconcile the receipts issued by the bookkeeper to the park manager's seasonal report to the Board, nor does he trace the collections remitted by the park manager to bank deposits and revenues recorded in the accounting records. Without such reconciliation or an independent review of the park manager's and bookkeeper's records, Town officials cannot ensure that all moneys remitted to the bookkeeper are deposited and properly reported.

⁴ We judgmentally selected these seven revenue categories either because they are significant Town revenue sources or the collection is received primarily in cash.

⁵ The Town park is open from May to September.

For collections remitted by the park manager to the bookkeeper, we traced the receipts in the bookkeeper's duplicate receipt book to the central accounting system posting and the related bank deposits. We also traced the bookkeeper's duplicate receipts retained in the receipt books to the receipts issued to the park manager and to the park manager's collection log. Of the 71 receipts⁶ issued by the bookkeeper during our audit period, totaling \$126,555, we identified a shortage of \$18,586 pertaining to 31 receipts as follows:

- The bookkeeper's copies of 19 receipts, with the top (original) receipts issued by the bookkeeper to the park manager totaling \$56,219, were altered to show a lower amount totaling \$45,510. The lowered amounts agreed to the amounts that the bookkeeper had deposited and recorded as revenues in the accounting system. However, our comparison of the altered receipts to the amounts on the original (top copy) of the receipts that the park manager was given by the bookkeeper showed a shortage of \$10,709.
- Twelve receipts issued by the bookkeeper totaling \$7,877 could not be traced to deposits or postings in the accounting records.

The bookkeeper told us she did not always count the collections received from the park manager prior to issuing the receipt and would alter her copy of the duplicate receipt after counting the moneys received; however, she did not discuss these shortages with the park manager or the Supervisor,⁷ and could not explain the reason for collections that were not deposited.⁸

Code Enforcement Fees — The code enforcement officer is responsible for handling the collection of various permit fees, which are remitted to the bookkeeper. The code enforcement officer issues a triplicate, press-numbered receipt, with one copy given to the customer, one copy retained in the receipt book and the other copy for the bookkeeper to maintain accountability for moneys collected. The code enforcement officer also maintains a manual journal of the receipts issued, including the date, description and permit number. Starting in 2012, the journal also includes the amount collected.

The bookkeeper did not issue a receipt to the code enforcement officer for collections remitted to her. The Supervisor also told us he does not reconcile the copies of receipts issued by the code enforcement officer

⁶ Of the 71 receipts, six receipts totaling \$2,113 were issued by the bookkeeper directly to customers.

⁷ The Supervisor and park manager told us that the bookkeeper did not inform them of these shortages.

⁸ On November 12, 2013, subsequent to our fieldwork, the bookkeeper signed a statement saying she borrowed the money.

to the officer's journal or to the permit applications. Furthermore, he does not trace the bookkeeper's collection of these funds to deposits and recorded revenue. Therefore, Town officials could not be sure that all moneys remitted to the bookkeeper were deposited and properly recorded in the accounting records.

We traced the receipts in the code enforcement officer's triplicate receipt book to the central accounting system postings and subsequent deposits and to any receipts the bookkeeper prepared. Of the 166 receipts totaling \$9,060 issued by the code enforcement officer during the audit period, we identified 86 receipts totaling \$4,146 that could not be traced to a related deposit or postings in the central accounting system. Town officials were unable to provide an explanation for the lack of deposits or accounting records.⁹

Town Hall Rental Fees — The bookkeeper is responsible for collecting the Town Hall rental fees charged for use of the Town Hall meeting hall. The bookkeeper issues a duplicate press-numbered receipt, with one copy for the customer and one copy retained in the receipt book which is maintained for her records. No other records are kept to support Town Hall rentals, such as a calendar or log to document the scheduled rentals.

We traced the receipts issued by the bookkeeper to the central accounting system and related deposits. Of the 28 receipts totaling \$1,400 issued during the audit period, 16 receipts totaling \$800 could not be traced to a deposit or postings in the accounting records. Furthermore, the bookkeeper stated that she did not always issue a receipt to customers for rentals; therefore, it is likely that additional collections were received that were not deposited and accounted for.

Because of our concerns over cash collections handled by the bookkeeper, we performed a cash count on May 9, 2013 to verify that all funds had been deposited with the exception of moneys on hand for petty cash. According to the bookkeeper, there were no other Town funds that needed to be deposited in the bank. However, we identified five checks issued to the Town, all dated prior to the date of our cash count, in a bank bag in the bookkeeper's office that totaled \$337,818 (see Timeliness of Deposits).

These discrepancies were allowed to occur because the bookkeeper controlled the custody, recording and deposit of cash on behalf of the Town without oversight.

Timeliness of Deposits

Town Law requires the Supervisor to deposit moneys received no later than 10 days after receipt. While the statutory deadline is the

⁹ Ibid.

latest point in time at which a deposit may be made, good business practice calls for moneys to be deposited as soon as possible after collection. The longer moneys remain on hand and not deposited, the greater the risk of loss or theft.

The bookkeeper should document the composition of the receipts: i.e., cash, check or money order. This information should follow the receipted moneys through to deposits in the bank, which should be documented by detailed deposit slips. It is important that collections are deposited intact – in the same amount and form (cash, check or money order) as received – and that detailed records and deposit tickets are maintained for verification purposes.

To test the timeliness of deposits that were made, we examined all 182 deposits during the scope period, totaling \$3,638,840, for park and recreation, Town Hall rental, code enforcement fees, wind power payments, snow and ice contractual payments, State aid and CHIPS. Of the 182 deposits, 96 were not made in a timely manner. For example, a receipt totaling \$18,565 for an Aid and Incentives for Municipalities payment receipted on September 19, 2012 was not deposited until May 22, 2013 (245 days after the receipt was issued). A receipt totaling \$83,175 for snow and ice contractual payment receipted on April 24, 2012 was not deposited until August 7, 2012 (105 days after receipt). In addition, park and recreation remittances receipted on May 22, 2012, totaling \$10,880 and consisting of \$5,215 cash and \$5,665 in checks, were not deposited until July 10, 2012 (49 days after receipt).

Further, we found five undeposited checks totaling \$337,818 in the bookkeeper's office. These checks included a State aid reimbursement totaling \$220,000 to the Town issued on January 31, 2011. Because this check was not deposited in a timely manner, the funds were turned over to the State Comptroller's Office of Unclaimed Funds, resulting in the Town having to file an application to reclaim the \$220,000. The funds were reclaimed and deposited on June 17, 2013 (868 days after the original check date). The remaining four checks had issue dates of several days to several months before the date of our cash count.

The bookkeeper could not provide an explanation for why she did not make deposits in a timely manner or retained the five checks even though she made subsequent deposits. Since Town moneys were either not deposited in a timely manner or not deposited at all, funds were not available to meet Town obligations as they occurred and could not earn potential interest revenue from the bank.

Because collections totaling at least \$23,532 were not deposited¹⁰ and cannot be accounted for by Town officials, we have referred our findings to law enforcement officials.

Recommendations

1. The Board should seek recovery of \$23,532 from the bookkeeper for collections not deposited.¹¹
2. The Board should adopt written policies and procedures over cash receipts that include collection, recording and depositing. The policies should require segregating incompatible functions related to cash receipts. Alternatively, the Board and Supervisor should implement mitigating controls such as supervisory oversight.
3. The Supervisor should reconcile the receipts issued by the bookkeeper (to the park manager, code enforcement officer and parties remitting Town hall rental fees) to corresponding departmental records/collection sheets and to deposits.
4. The Board should ensure that deposits are timely and intact, in accordance with applicable laws.

¹⁰ See Appendix A for a detailed breakdown

¹¹ On August 26, 2013, subsequent to our fieldwork, the bookkeeper made full restitution of this amount.

Supervisor's Records and Reports

The Town's financial records must be complete, accurate and up-to-date to be useful for managing Town operations. The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions, including maintaining accounting records and filing required documents with the Office of the State Comptroller (OSC). In addition, the Supervisor must perform monthly bank reconciliations to ensure the timely identification and documentation of differences between the Town's cash balances and those reported by the bank. If the Supervisor assigns these duties to a bookkeeper, he should provide sufficient oversight to ensure that the bookkeeper's records are reliable and up-to-date and that any journal entries have supporting documentation and supervisory approval. The Supervisor is also required to file the annual update document (AUD) with OSC.

The Town does not have complete, accurate and up-to-date accounting records, and the Supervisor did not perform proper monthly bank reconciliations during our entire audit period. Also, the Supervisor did not file the required AUD with OSC for the past two years or provide the Board with sufficient interim financial reporting. As a result, the Board could not properly monitor and manage Town operations.

Accounting Records

Complete and up-to-date accounting records and effective procedures are necessary to properly account for and report the Town's financial activities. It is important that revenues are recorded in the accounting system in a timely manner so that Town officials have an accurate picture of the Town's cash flow and can make well-informed financial decisions. Further, monthly bank reconciliations comparing bank statements with the Town's accounting records can help verify the accuracy of the records and safeguard Town assets. Lastly, an annual audit of all officers and employees who handle Town funds is a valuable tool to identify any irregularities or deficiencies in cash management processes.

Posting of Revenues to the General Ledger — The general ledger is a detailed record containing the accounts needed to reflect a government's financial position and results of operations. These include assets, liabilities and equity (fund balance) accounts and control (aggregate) accounts for revenues, expenditures and the adopted budget. Any journal entries that need to be made to the records should have supporting documentation and approval.

The Town has not implemented procedures to ensure that the journal entries to the general ledger prepared by the bookkeeper are reviewed

and approved. Further, the bookkeeper did not record revenues received during our scope period in a timely manner. Except for 2013, all revenues collected were recorded in the general ledger after the end of each fiscal year. Table 1 shows the timeframes that the revenues were entered for each fiscal year.

Table 1: Revenue Posting		
Year	Entry Date	Total Amount ^a
2009	February 2010	\$1,302,706
2010	March 2011	\$1,631,900
2011	October and November 2012	\$1,419,443
2012	April 2013	\$1,388,019
2013	June 2013 ^b	\$1,384,229

^a Per the bookkeeper's journal entries
^b The 2013 revenues were entered by the interim bookkeeper after the former bookkeeper's employment was terminated in May 2013.

Had the Supervisor reviewed and approved journal entries, he would have been aware that the bookkeeper was not recording revenues in a timely manner and therefore could have taken corrective action. As a result of these weaknesses, the Board does not have the financial information necessary to ensure revenues are received as budgeted and to make decisions about the Town's operations.

Bank Reconciliations — It is important that the Supervisor perform monthly bank reconciliations. Any difference between cash balances per the records and the bank statements must be promptly documented and resolved to ensure that financial activities are accounted for in a proper and timely manner.

During our audit period, Town officials maintained 11 bank accounts identified as three general operating accounts, a trust and agency account for payroll, a payables account, a capital building reserve account, a highway reserve account, a highway checking account, a decommissioning bond account, a noise escrow account and an escrow.¹² We tested to determine if bank statements were available for these accounts and if adequate and timely bank reconciliations had been completed for all accounts during our scope period.

Only two bank accounts (general fund checking and highway fund checking) were being reconciled, and only to their respective manual checkbooks rather than the central accounting system records. Our comparison of the most recently completed bank reconciliations¹³ as of March 31, 2013 to the accounting records found the general fund

¹² The decommissioning bond, noise escrow and escrow (for attorney fees) accounts relate to the Town windpark.

¹³ Our examination of the bank reconciliations was done on July 1, 2013.

bank balance was \$494,440 less than the balance in the accounting records, while the highway fund bank balance exceeded the balance in the accounting records by \$448,510. Due to the condition of the accounting records, we could not determine the reasons for these variances; however, a contributing factor was that the bookkeeper was not posting revenues in a timely manner.

Of the remaining nine accounts that were not being reconciled, seven had little or no transactions each month except for the posting of interest earned. Two accounts – the trust and agency account for payroll and the payables account – had check disbursements on a monthly basis. Due to the lack of reconciliations, we reconciled the April 30, 2013 bank statements for these two bank accounts. While we did not identify any variances for the payable account, we found an unreconciled difference of \$14,364 in the payroll account, with the central accounting book balance higher than the bank balance. Due to the condition of the accounting records, combined with the lack of proper reconciliations, we could not trace the source of this discrepancy or determine how long it has existed.

We also scanned transactions posted on the bank statements for the operating accounts during our audit period and reviewed the corresponding canceled checks to determine if there were any inappropriate transactions. We found no issues with any banking activity or disbursements during this period.

Without accurate and current bank reconciliations performed or reviewed by an individual independent of the cash custody function, Town officials do not have a reasonable level of assurance that the accounting records are correct or that all moneys are accounted for properly. Inadequate division of duties related to financial transactions and a lack of compensating controls increase the risk for improper cash disbursement or receipt transactions and for error or fraud to occur and remain undetected by Town management.

Annual Audit — Town Law requires that, annually on or before January 20, each Town officer and employee who received or disbursed any moneys in the previous year account for these moneys to the Board. The purpose of this annual accounting is to provide assurance that public moneys are handled properly (i.e., deposited in a timely manner and accurately recorded and accounted for), identify conditions that need improvement and provide oversight of the Town's financial operations. A thorough annual review also provides the Board with additional assurance that financial records and reports contain reliable information on which to base management decisions. An annual audit is especially important when there is a limited segregation of duties.

With the exception of the Town Justices, the Board did not examine the financial records or reports of all officers and employees who received or disbursed moneys on behalf of the Town during our audit scope period. Specifically, the Board did not audit, or cause to be audited, the records of the Supervisor, Tax Collector, Town Clerk, code enforcement officer and park manager. The Board's failure to examine these records and reports diminishes its ability to sufficiently monitor the Town's financial operations and ensure that Town officers and employees follow established policies. Further, annual audits would have detected the bookkeeper's failure to record and deposit revenues in a timely manner and may have identified her apparent misappropriation of funds.

Financial Reports

The Supervisor is required to file the Town's AUD with OSC within 60 days following the close of the fiscal year, with the option of a 60-day extension, if requested. In addition, the Supervisor must provide periodic financial reports to the Board throughout the year including budget-to-actual information and cash balances by fund. Further, as accounts are expended, it is important for the Supervisor to advise the Board of budgetary accounts that may not be sufficient and propose budgetary adjustments as necessary.

Annual AUD Filing — The AUD, also known as the annual financial report, is an important document that allows management and the general public to assess the Town's financial operations and financial condition. Because the AUD is based on the accounting records, it is critical that the records are accurate and current.

The Supervisor has not filed the Town's annual financial report as required with OSC. The 2011 report was filed in July 2013, 16 months past the deadline, and the 2012 report was filed in August 2013, five months past the deadline. The Town continues to experience problems with its accounting records and, as of the end of our fieldwork, was seeking a new permanent bookkeeper to assist the Supervisor in bringing the accounting records up to date.¹⁴

The Supervisor's failure to file AUDs in a timely manner with OSC is indicative of problems in the Town's financial recordkeeping and denies the Board and the public a primary fiscal tool to monitor the Town's financial affairs.

Interim Financial Reporting — The Board did not establish fiscal policies on the frequency, content or timeliness of interim reporting and the Supervisor did not provide the Board with sufficient periodic financial reports. While the bookkeeper provided budget-to-actual reports to the Board for expenditures, the Board did not receive

¹⁴ A new bookkeeper was hired in July 2013.

any information on reported revenues or each fund's cash or bank balances. This additional reporting would have given the Board timely notifications of unrecorded revenues, bank balances that were not reconciled and the overall condition of accounting records.

For instance, because the Board did not receive information on reported revenues, Board members did not realize that CHIPS moneys totaling \$140,534 for fiscal years 2011 and 2012 were not received. Had they received this information, they likely would have determined that the proper paperwork was not filed in a timely manner. (Prior to the end of our fieldwork, the Town completed the CHIPS application for fiscal years 2011 and 2012 and will still receive the full amount.)

In addition, the transparency of Town operations is compromised because the public does not have the opportunity to review the Town's financial operations and assess its financial condition. The combination of errors in the accounting records and lack of interim reporting resulted in the Board being unable to evaluate the true financial condition of the Town and take corrective action as necessary. These deficiencies also contributed to the concealment of the bookkeeper's apparent misappropriation of funds.

Recommendations

5. The Supervisor should review supporting documentation and approve journal entries prior to the bookkeeper recording the entries in the central accounting system.
6. The Supervisor should ensure that the Town's accounting records are complete, accurate and maintained in a timely manner.
7. The Supervisor should perform complete and accurate monthly bank reconciliations and ensure that any differences disclosed by the reconciliation process are promptly identified and resolved.
8. The Board should conduct an annual audit of the records and reports of all Town officers and employees who received or disbursed money during the preceding fiscal year or hire an independent auditor to conduct the audits.
9. The Supervisor should file the Town's AUDs with OSC in a timely manner.
10. The Board should identify the financial reports that the Supervisor should prepare and provide to them on a regular basis to help manage Town finances and evaluate financial condition. Such reports should include:
 - Budget-to-actual reports for all Town funds, including the original and modified budget for revenues and expenditures,

- Monthly reports showing all moneys received and disbursed, balance sheet accounts and cash balances for all Town funds, and
- Bank reconciliations.

APPENDIX A

COLLECTIONS NOT DEPOSITED¹⁵

Table 2: Collections Not Deposited						
	2009	2010	2011	2012	2013	Total
Park and Recreation						
Collections	\$1,387.38	\$40,232.54	\$40,247.51	\$44,113.19	\$575.00	\$126,555.62
Deposits	\$680.88	\$38,178.79	\$33,154.31	\$35,955.22	\$0	\$107,969.20
Shortage	\$706.50	\$2,053.75	\$7,093.20	\$8,157.97	\$575.00	\$18,586.42
Hall Rental						
Collections	\$250.00	\$200.00	\$750.00	\$200.00	\$0	\$1,400.00
Deposits	\$250.00	\$200.00	\$150.00	\$0	\$0	\$600.00
Shortage	\$0	\$0	\$600.00	\$200.00	\$0	\$800.00
Code Enforcement						
Collections	\$2,527.00	\$1,807.00	\$2,312.00	\$1,939.00	\$475.00	\$9,060.00
Deposits	\$2,507.00	\$1,627.00	\$335.00	\$0	\$445.00	\$4,914.00
Shortage	\$20.00	\$180.00	\$1,977.00	\$1,939.00	\$30.00	\$4,146.00
Total Collections Not Deposited	\$726.50	\$2,233.75	\$9,670.20	\$10,296.97	\$605.00	\$23,532.42

¹⁵ Excludes the five uncashed/undeposited checks totaling \$337,818

APPENDIX B

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF ALTONA
P.O. Box 79
3124 Miner Farm Road
Altona New York, 12910
518-236-7035
Tax ID# 14-6002061

February 18, 2014

Town of Altona
Apparent Misappropriation of Cash Receipts
And Supervisor's Records and Reports
2013M-282

Due to the fact that a great deal of time and effort have gone into putting our town affairs in order I, with the support of the town board, would like to have the audit response serve as our Corrective Action Plan. We have been working on corrective action since the audit team left.

As Supervisor, I take full responsibility for the short comings that were identified through our recent town audit. Unfortunately, there are no training or skill requirements to become a town supervisor. Time and experiences guide you. There is no one to greet you with an overview of the job and responsibilities. A town supervisor has to hit the ground running and learn as you go. The modern world works at such a pace that it is very difficult to do the job that is expected of you without some training and background. Most supervisors rely on an efficient and trustworthy secretary to assist them. Now that I have been through this audit, I can definitely see the need for the checks and balances that help in keeping a watchful eye on the town's financial affairs. Even though a secretary may be very good with the accounting aspects of the job, the supervisor is the one responsible. I realize that I can't take anything for granted and that even if I have directed someone to do something, it needs to be checked and verified. I agree with the findings of the audit and have worked very hard with the new secretary and town board to prevent such findings from reoccurring.

This audit process was a great learning experience for all members of the town board, the Supervisor, as well as any official that deals with the operation of the Town of Altona. Fortunately, it came at the very best time. Because of the audit, we were able to recoup all of the money that was unaccounted for as well as money that wasn't applied for or not deposited. Many of the problems found were due to money being miscoded in our system. We were able to locate the problems and are now going forward confidently with every cent accounted for and all of the checks and balances in place. I feel that if we hadn't been selected to be audited, the town would have most definitely lost large sums of money. We are now educated in our jobs to keep our accounting in order. We changed our software system for accounting and have been through training to ensure that our accounting is being handled properly. We have support in place and have learned to question, check and verify on a regular basis.

Recommendations and Responses for Cash Receipts

1. Recommendations: The board should seek recovery of \$23,532.00 from the bookkeeper for collections not deposited.

Response: As soon as I was informed by the auditors of the amount that was unaccounted for by the bookkeeper/ secretary, I took action. I confronted the secretary, informed her of the amount, and demanded that the amount be repaid. On August 26, 2013 I received a check from the Secretary for the total amount which was \$ 23,532.00. This action was agreed on by the town board and the Supervisor.

2. Recommendation: The Board should adopt written policies and procedures over cash receipts to include collection, recording, and depositing. The policy should require segregating incompatible functions related to cash receipts. Alternatively, the Board and Supervisor should implement mitigating controls such as supervisory oversight.

Response: This response is already being followed but the policy will become official by a resolution in our Board Meeting held on March 9. The copy of the Policy is attached.

3. Recommendation: The Supervisor should reconcile the receipts issued by the bookkeeper (to the park manager, code enforcement officer and parties remitting Town Hall rental fees) to corresponding departmental records/collection sheets and to deposits.

Response: The Supervisor will reconcile the receipts issued by the bookkeeper (to the park manager, code enforcement officer and parties remitting Town Hall rental fees) to corresponding department records/collection sheets and deposits on a weekly basis with a monthly total report going to the board. This response is being practiced presently.

4. Recommendation: The Board should ensure that deposits are timely and intact in accordance with applicable laws.

Response: Supervisor will issue a report to the board with the deposits that were made each month. The date received and the date deposited will be shown. This response is being practiced presently.

Supervisor's Records and Reports Recommendations and Responses

5. Recommendation: The Supervisor should review supporting documentation and approve journal entries prior to the bookkeeper recording the entries in the central accounting system.

Response: All journal entries made by the Bookkeeper/ Secretary will be preapproved, reviewed and initialed by the Supervisor. Backup documentation must be provided for all journal entries. This recommendation is already in effect.

6. Recommendation: The Supervisor should ensure that the town's accounting records are complete, accurate and maintained in a timely manner.

Response: The Supervisor will review the town's accounting records monthly to ensure the records are complete, accurate and filed in a timely manner. This recommendation is already in effect.

7. Recommendation: The Supervisor should perform complete and accurate monthly bank reconciliations and ensure that any differences disclosed by the reconciliation process are promptly identified and resolved.

Response: The bank reconciliations are performed monthly by the Supervisor and the Secretary. The bank reconciliations will be initialed by the Supervisor and the Secretary. Our new accounting software program will not allow us to proceed until the month's accounting is closed. This recommendation is already in effect.

8. Recommendation: The board should conduct an annual audit of the records and reports of all town officers and employees who received or disbursed money during the preceding fiscal year.

Response: A committee of town board members will conduct an audit of all town officers and employees who received or disbursed money during the preceding fiscal year. And report to the town board at the close out meeting. This policy will take place as soon a committee is formed during our March 9 Town Board Meeting.

9. Recommendation: The Supervisor should file the Town's annual documents with OSC in a timely manner.

Response: The AUD will be filed with the OSC by March 1st. This policy is currently being followed.

10. Recommendation: The board should identify the financial reports that the Supervisor should prepare and provide to them on a regular basis to help manage town finances and evaluate financial condition. Such reports should include:

Budget-to-actual reports for all town funds, including the original and modified budget for revenues and expenditures and monthly reports showing all moneys received and disbursed, balance sheet accounts and cash balances for all town funds, and bank reconciliations.

Response: with our new accounting software program, the Secretary to the Supervisor generates reports showing budget-to actual reports for all Town funds to include general as well as highway which include the original and modified budget for revenues and expenditures, a monthly report showing all moneys received an disbursed, balance sheet accounts and cash balances for all town funds, and a bank reconciliation report. This practice is currently in effect.

Larry Ross

Supervisor

2/24/14
Date

**Town of Altona Financial Policy for:
Cash Receipts (collection, recording, and depositing)**

1. When money is received into the Supervisor's Office a duplicate number receipt is to be written. The original copy is given to the person paying the money and the duplicate is for the office. The amount, what the money is for, and whether the money was a check or cash is to be written on the receipt. All money is to be counted in front of the person paying and then placed in the money bag in a locked file cabinet.
2. Within 3 days the money must be deposited in the bank. The person who took the money in is not to make the deposit. The Supervisor or his representative should be making the deposits whenever possible. All Receipts will be reconciled with the bank deposit receipts weekly.
3. All Receipts are to be loaded into the Software/Accounting Program in a timely manner. A copy of all Receipts will be given to the Supervisor and Board Members at Monthly Meetings.
4. The Supervisor will check the Receipt books while reconciling the Bank Accounts each month. The Supervisor will also run checks to make sure all the receipts are loaded into the software program at the end of each month.
5. During summer months when the Park Manager has large sums of money the Secretary, Supervisor and Park Manager will each count the money to ensure totals are correct.
6. Copies of all checks and office logs from everyone that handles money will be kept in a Revenue file for each department. The files are located in the bottom drawer of file cabinet.
7. All receipts need to be marked with the proper account code and the Supervisor needs to review the codes monthly.

Town of Altona Financial Policy

1. Any journal entries made by the Bookkeeper/Secretary need to be reviewed and initialed by the Supervisor. Backup documentation must be provided for all journal entries. The Supervisor will review the Town's accounting records to ensure the records are complete, accurate and filed in a Timely Manner.
2. The Town Board will conduct an annual audit of the records and reports for all Town officers and employees who received or disbursed money during the previous fiscal year.
3. The AUD must be filed with the OSC by March 1st.
4. Each month the Town Board and Supervisor are to review the Bank Reconciliation and Trial Balance for each account. This will ensure that all money is accounted for and appropriated correctly.
5. Any money transferred within bank accounts via EFT will be initialed by the Supervisor. (I.E. payroll, bills) The Town Board approves the Bills at each monthly meeting.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy the Town's internal controls. 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 the 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 weakness existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected cash receipts and the Supervisor's records and reports for further testing for the period January 1, 2009 to May 31, 2013.

To accomplish our audit objective and to obtain valid audit evidence, our audit procedures for cash receipts included the following:

- We interviewed the Supervisor and secretary to the Supervisor, who are responsible for maintaining accounting records and reports, and reviewed the Board minutes to obtain an understanding of the Town's accounting practices.
- We interviewed the park manager and code enforcement officer to gain an understanding of their collection process and the records they maintain.
- We requested accounting records from the Supervisor, secretary to the Supervisor, park manager and code enforcement officer.
- We reviewed all cash receipts of park and recreation fees, Town Hall rental fees, code enforcement fees, wind power payments, CHIPS reimbursement, snow and ice contract payments and State aid checks to determine whether all collections were appropriately recorded and deposited in a timely manner.

To accomplish our audit objective and to obtain valid audit evidence, our audit procedures for records and reports included the following:

- We interviewed Town officials and reviewed Board minutes and policies to gain an understanding of the internal controls over the Town's records and reports.
- We reviewed bank statements and bank reconciliations for the month of April 2013 (the month of the most recent bank statement within our scope period) to determine if bank reconciliations were properly performed. We reconciled the two bank accounts with significant activity (trust and agency for payroll, and payables) for which reconciliations were not being performed.

- We scanned transactions posted on all bank statements for operating accounts during our audit period and reviewed the corresponding canceled checks to determine if there were any inappropriate transactions.
- We reviewed the balance sheets, trial balances and general ledger details to determine if the accounting records were adequate and maintained on a timely basis.
- We reviewed the 2011 AUD to ensure that it was supported by the accounting records and to determine if annual financial reports are complete and timely.

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

APPENDIX D

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