



Town of Henderson

Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

January 1, 2007 — November 5, 2008

2009M-233



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2010

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 Henderson, entitled Internal Controls Over Selected Financial Activities. 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 Henderson (Town) is located in the western part of Jefferson County and has a population of 1,377 according to the 2000 Federal census. The Town provides various services to its residents, including sanitation, highway, parks, street lighting, public safety, and general government support. The majority of funding to finance these services comes from real property taxes, State aid, and fees. The Town's 2008 budgeted revenues totaled approximately \$1.8 million.

The Town is governed by the Town Board (Board), which comprises five elected members: the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor is both chief executive officer and chief fiscal officer of the Town and is responsible for the Town's daily operations.

Scope and Objective

The objective of our examination was to determine whether Town officials properly safeguarded their financial resources during the period January 1, 2007, to November 5, 2008. We also reviewed financial information pertaining to the water districts for the period 2000 through to 2008. Our audit addressed the following related questions:

- Are internal controls over cash receipts appropriately designed and operating effectively to adequately safeguard Town assets?
- Are internal controls over the Town's interfund transactions designed and operating effectively to maintain each fund's proper fund equity?

Audit Results

The Board has not established written procedures governing cash receipts or provided sufficient oversight over Town officers and employees who receive cash on the behalf of the Town. Because there is no policy or procedure governing issuing cash receipts, the Town Clerk and other Town employees did not issue receipts for cash transfers and transactions, including \$18,320 worth of construction and demolition disposal fees and \$5,130 in vending machine water sales in 2008. Also, the Board and the Supervisor have not established an adequate segregation of the Town Clerk's duties related to water rents receipts, nor do they provide oversight of her work by reviewing the accounting records, or by maintaining an independent water rents receivable control account and reconciling water rents received with customer account records. Although our review of receipts found no

significant exceptions, because the Town Clerk can receive water rent cash receipts, make accounting entries, make adjustments to customer accounts, and perform bank reconciliations without adequate supervision, there is a risk that inappropriate transactions could be initiated and hidden.

The Town's two water districts (#1 and #2) did not repay interfund advances totaling \$209,138 transferred from the general fund by the close of the fiscal year in which they were made, as required by General Municipal Law. Also, both water districts did not make \$4,300 in interest payments to the general fund for these advances. In addition, from 2004 to 2008, the Town's annual financial reports inaccurately represented moneys advanced to water district #1, totaling \$48,642, as moneys transferred instead of as water rent revenues. Although we found some exceptions with interfund advances, we found that overall the Town's system of internal controls over the water districts' fund equity was adequately designed and operating effectively.

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.

Introduction

Background

The Town of Henderson (Town) is located in the western part of Jefferson County and has a population of 1,377 according to the 2000 Federal census. The Town provides various services to its residents, including sanitation, highway, parks, street lighting, public safety, and general government support. The majority of funding to finance these services comes from real property taxes, State aid, and fees. The Town's 2008 budgeted revenues totaled approximately \$1.8 million.

The Town is governed by the Town Board (Board), which comprises five elected members: the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor is both chief executive officer and chief fiscal officer of the Town and is responsible for the Town's daily operations.

The Town has two water districts, and each water district is separate from the general and highway fund with different tax bases. The Board is responsible for authorizing any interfund activity. The Supervisor is responsible for accounting and reporting the revenues, expenditures, equity, and interfund advances of each water district separate from the general and highway funds.

Objective

The objective of our examination was to determine whether Town officials properly safeguarded their financial resources during the period January 1, 2007, to November 5, 2008. We also reviewed financial information pertaining to the water districts for the period 2000 to 2008. Our audit addressed the following related questions:

- Are internal controls over cash receipts appropriately designed and operating effectively to adequately safeguard Town assets?
- Are internal controls over the Town's interfund transactions designed and operating effectively to maintain each fund's proper fund equity?

Scope and Methodology

We examined internal controls over the Town's cash receipts for the period January 1, 2007, to November 5, 2008. In addition, we analyzed financial information pertaining to the water districts for the period 2000 to 2008.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such

standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of
Town 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 Town 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 Town Board to make this plan available for public review in the Town Clerk's office.

Cash Receipts

The Board and Town officials are responsible for establishing an internal control system that provides reasonable assurance that cash and other resources are safeguarded and accounted for and that financial transactions are authorized and properly recorded. Town officials are responsible for implementing the Board's control directives by designing and documenting appropriate operating policies, practices, and procedures and properly delineating employee responsibilities. Such policies and procedures include providing for the adequate segregation of financial duties and ensuring that cash receipts are properly accounted for, recorded, and deposited. Also, it is important that the Board provide sufficient oversight over those Town officers and employees who receive cash on the behalf of the Town.

The Board has not established written procedures governing cash receipts or provided sufficient oversight over Town officers and employees who receive cash on the behalf of the Town. Because there is no policy or procedure governing issuing cash receipts, the Town Clerk and other Town employees do not issue duplicate,¹ press-numbered receipts for cash transfers and transactions. Also, the Board and the Supervisor have not established an adequate segregation of the Town Clerk's duties related to water rents receipts, nor do they provide oversight of her work by reviewing the accounting records, or by maintaining an independent water rents receivable control account and reconciling water rents received with customer account records.

Board Oversight

The Board is responsible for establishing and monitoring internal controls over the receipt of cash by Town officials and fiscal operations in the Town Clerk's office. An effective system of internal controls includes establishing written policies and procedures and providing periodic oversight of fiscal operations. Also, an effective system of internal controls over cash receipts requires the proper distribution of duties so that the same individual does not perform all phases of a transaction. Due to limited resources, it is not always possible to have optimum separation of duties. Nonetheless, the risks associated with inadequate segregation of duties can be mitigated to some extent by supervisory oversight and regular review of an individual's work.

¹ A "duplicate" receipt is one that has more than one copy associated with each single receipt issued to a payer. For example, one receipt issued may have two (or more) copies associated with it: one given to the payer, and one retained by the payee. These duplicate copies allow the individual who paid the moneys, and the entity that received the moneys, to each retain a receipt as proof of payment.

The Board has not established written procedures governing the receipt of cash by Town officials. Consequently, the Town Clerk and transfer station employees do not issue receipts for all cash transfers and transactions. As a result, Town officials do not have suitable documentation to verify that all moneys received by these individuals have been recorded and deposited properly. Also, the Board and the Supervisor have not established an adequate segregation of the Town Clerk's financial duties. Town officials did not mitigate the control weakness inherent in the Town Clerk's incompatible duties by supervising her work to ensure that she was complying with General Municipal Law's (GML) duplicate receipt provisions,² or by having someone independent of the Town Clerk's office review her bank reconciliations.

When one person performs all of the duties related to cash collections and recordkeeping without oversight, it increases the risk that employee errors and irregularities may occur and not be detected and corrected.

Cash Receipts

A good system of internal controls over cash receipts helps ensure that all moneys received by the Town are properly receipted and recorded. GML requires Town officials and employees to issue duplicate, press-numbered receipts for all moneys collected when there is no other satisfactory evidence of the cash transactions generated at the point of collection that would be suitable for auditing purposes. Also, it is important that the Board and the Supervisor provide adequate oversight over the Town Clerk and Town employees to ensure that they are complying with the duplicate receipt provision of GML.

Trash Tickets and C&D Fees — The Town charges customers for disposing trash and construction and demolition (C&D) debris at the transfer station. The Town Clerk's 2008 annual report indicated that that total revenues for trash tickets were \$18,875 and C&D fees were \$18,320. To dispose of trash at the transfer station, customers must purchase numbered tickets. The Town Clerk provides these trash tickets to the transfer station employees for sale to customers. To dispose of C&D debris, customers do not have to purchase tickets; they simply pay a fee at the transfer station. Two transfer station employees sell the trash tickets and collect C&D fees, but they do not issue receipts to customers for C&D fees.

At the end of each day, the transfer station employees prepare a signed sales report that lists ticket sales by ticket number and total dollar amounts collected for trash ticket sales and C&D fees. They

² Refer to the Cash Receipts section for further information.

remit this sales report and moneys collected to the Town Clerk. However, the Town Clerk does not issue a receipt to the transfer station employees to provide evidence of the dollar amount transmitted, or that they had transmitted cash from the transfer station to her. Although the Town Clerk reconciles the trash ticket numbers sold to the ticket numbers that she issued to the transfer station employees, she has no satisfactory, independent record to support the total C&D fees collected that are listed on the sales report. Because transfer station employees were not required to issue receipts for C&D fees, Town officials do not have any assurance that all C&D fees collected have been properly recorded and deposited.

Water Sales — The Town sells water from a vending machine. The Town Clerk's 2008 annual report indicated that total revenues for water sales were \$5,130. The Town's sanitation foreman collects the coins from the vending machine's locked box and transmits the money to the Town Clerk. The Town Clerk is responsible for recording the cash received and for depositing it in the bank. The sanitation foreman maintains a list of dates and total amounts of vending machine moneys transmitted to the Town Clerk, but the Town Clerk does not issue a receipt to the sanitation foreman to provide evidence of the dollar amount transmitted, or that he had transmitted cash from the vending machine to her. The Town Clerk also maintains a list of water sale moneys that she has deposited. However, the Town Clerk and sanitation foreman do not compare their two lists.

Although these separate lists are maintained and may be compared, having the Town Clerk issue a receipt to the sanitation foreman provides better evidence that all collections recorded by the sanitation foreman were turned over to the Town Clerk and that all amounts received by the Clerk were deposited. Because the Town Clerk was not required to issue receipts for water sales to the sanitation foreman, Town officials do not have complete assurance that all water sale moneys collected have been properly recorded and deposited.

Copies and Faxes — The Town Clerk collects fees for copies and faxes and maintains a list of the names of the individuals who paid the fees, the amounts they paid, and the services (copy or fax) for which they paid. However, the Town Clerk did not issue receipts when collecting fees for these services, as required by GML. The Town Clerk's 2008 annual report indicated that total revenues for copies and faxes were \$1,202. Because the Town Clerk did not issue receipts for copy and fax fees, Town officials do not have complete assurance that all copy and fax fees collected have been properly recorded and deposited.

The Board and Supervisor did not ensure that the Town Clerk and Town employees complied with GML by issuing receipts when

transferring water sales moneys and collecting fees for the disposal of C&D debris and for copies and faxes. To address the internal control risks associated with the failure to issue receipts, we accounted for six months of trash tickets totaling \$80,591 sold by transfer station employees and remitted to the Town Clerk. We found no significant exceptions. In addition, we compared one month of meter readings on the vending machine for water sales to the list maintained by the sanitation foreman. We also compared the Town Clerk's list of water sales moneys deposited to the sanitation foreman's list of water sales moneys transmitted to the Town Clerk for the period January 2008 to September 2008 totaling approximately \$4,100 and found that the two lists substantially agreed except for minor variances due to timing of deposits.

To account for all other cash receipts handled by the Town Clerk, we reviewed 2007 and 2008 real property taxes collected and interest earned on tax moneys held by the Town Clerk; verified that all moneys held by the Town Clerk were remitted to the Supervisor, Jefferson County Treasurer, and the State; reviewed recorded deposits, monthly reports, canceled checks, and cashbook records; and reviewed boat mooring site records and receipts. Although we found no significant exceptions, the failure to use an adequate receipt system to provide evidence for the collection of funds can expose the Town to the possible loss or misuse of funds.

Water Rents

An effective system of internal controls over the collection of water rents includes proper segregation of duties so that one individual does not perform the three key duties of billing, collecting, and recording water rents. If it is not practical to segregate duties because of limited staff resources, the Board must establish compensating controls to mitigate the risks associated with the inadequate segregation of duties, such as having someone independent of the process review the billing, receipts, and accounting records associated with the collection of water rents. Also, the Board could require the Supervisor's office to maintain a water rents receivable control account that would provide an independent record that could be periodically reconciled with the detailed customer accounts maintained by the Town Clerk to help ensure the accuracy of the records and to detect errors or irregularities.

The Town Clerk's 2008 annual report indicated that total water rents revenues totaled \$95,374. The Town Clerk's duties include billing, collecting and recording water rents, maintaining a water rents receivable control account, and reconciling water rent revenues received with those recorded as deposited in the bank statements. When performed by one individual, these duties are incompatible. The Board did not provide adequate oversight of the water rent receipts to serve as a compensating control. The Supervisor's office

does not maintain a water rents receivable control account, nor does the Supervisor's office request or receive any information or reports from the Town Clerk that are necessary to maintain an independent water rent receivable control account. Because Town officials do not maintain an independent water rents receivable control account, they cannot periodically reconcile the control account balance with the detailed information in the customer records maintained by the Town Clerk. In addition, the Town Clerk and the sanitation foreman work together on determining customer account adjustments. However, the Board does not review the adjustments or designate someone independent of the water rents receipts process to review the adjustments.

To address these internal control weaknesses, we compared water usage readings with the billing report, verified that rates agreed with the Board-approved schedule, matched the September 2008 billing report total with the Town Clerk's receivable control account, traced cash credits through the accounting process, reviewed account adjustments, and verified that 2008 unpaid balances were added to the 2009 tax roll. Although we found no significant exceptions, because the Town Clerk can receive water rent cash receipts, make accounting entries, make adjustments to customer accounts, and perform bank reconciliations without adequate supervision, there is a risk that inappropriate transactions could be initiated and hidden.

Recommendations

1. The Board should implement written procedures that govern the receipt of cash by all Town officers and employees.
2. Town officers and employees should issue duplicate, press-numbered cash receipts for all moneys received to provide evidence of the collection of cash.
3. The Board should ensure that the duties of billing, collecting and recording water rents are segregated. The Town Clerk should provide the Supervisor's office with the necessary information to allow the Supervisor's office to maintain a water rents receivable control account, which should be periodically reconciled to customer accounts.
4. The Board should review, or designate someone who is independent of the water rents processing function to review any adjustments made to customer accounts.

Water Districts' Fund Equity

While GML allows municipalities to temporarily advance moneys from one fund to another (with certain restrictions), towns generally are not authorized to make budgetary transfers between funds that have different tax bases. When Town officials advance moneys between funds that have different tax bases, they must repay the advance by the end of the fiscal year in which the advance was made. Also, they must include an additional sum with the repayment to cover the estimated amount that would have been earned on the investment of the moneys by the fund making the advance. In addition, an accounting system must be designed to fairly present an individual fund's activities and demonstrate compliance with any finance-related legal or contractual provisions.

The general fund's tax base encompasses the whole Town, while each of the water districts' tax bases encompasses only a portion of the Town. The Town advanced moneys from the general fund to water districts #1 and #2, both of which have different tax bases than the general fund. However, the water districts did not repay these interfund advances by the close of the fiscal year in which they were made, and they did not always provide interest payments to the general fund for these advances. In addition, the Town inaccurately represented moneys advanced to water district #1 in its annual financial reports.

Water District #1 — The general fund advanced \$135,000 to water district #1 for capital costs in 2002, which the water district did not repay until 2003. However, when the water district repaid the advance, it included an additional \$4,050 payment for interest on the advance. At the end of 2003, the general fund advanced another \$60,751 to water district #1 to cover an operating deficit. This advance increased to \$72,603 as of December 31, 2004. Water district #1 again did not repay this interfund advance by the close of the fiscal year in which it was made. The water district repaid the advance to the general fund from 2005 to 2008; however, water district #1 did not make any interest payment to the general fund for the advance. We estimate that as of December 31, 2008, interest due the general fund was approximately \$4,100 from water district #1.

In addition, the Town's annual financial reports from 2004 to 2008 incorrectly reported that the general fund transferred (gave) \$48,642 to water district #1. This money was not a transfer; it was intended to reimburse water district #1 for the unpaid water rents that the Town

added to the tax rolls.³ Therefore, in the Town's annual financial reports, Town officials should have reported this amount as water rent revenue and not as a transfer from the general fund.

Water District #2 — The general fund advanced \$26,239 to water district #2 for engineering fees in September 2008 and a total of \$296 for legal fees accrued in 2007 and 2008. Water district #2 repaid \$25,000 to the general fund on November 25, 2008 – leaving a balance of \$1,535 – but did not make any interest payment to the general fund for the \$26,239 advance. We estimate that as of December 31, 2008, interest due the general fund was approximately \$200 from water district #2.

We found no other exceptions concerning interfund advances or transfers. Overall, we found the system of controls over the water districts' fund equity was adequately designed and operating effectively.

Recommendations

5. The Board should ensure that interfund advances are repaid by the close of the fiscal year in which the advance was made.
6. Town officials should ensure that, when repaying interfund advances from one fund to another that have different tax bases, Town officials include a reasonable sum as an interest payment to the lending fund, which is attributed to the interest that the lending fund would have earned on the advance.
7. Town officials should ensure that the Town's annual financial report records unpaid water rents that the Town adds to the tax roll correctly as water rent revenues, and not as a transfer from the general fund.

³ These moneys eventually would be repaid into the general fund after taxes are collected.

APPENDIX A
RESPONSE FROM TOWN OFFICIALS

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

Raymond Walker, Supervisor
Frank Ross, Deputy Supervisor
Carol Hall
Torre Parker-Lane

Charlotte Richmond, Town Clerk

TOWN OF HENDERSON

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Henderson, New York 13650
Phone 315-938-5542
Fax 315-938-7249
TDD 1-800-662-1220

February 12, 2010

[REDACTED]
State of New York
Office of the State Comptroller
333 East Washington Street
Syracuse, New York 13202

Dear [REDACTED]:

Enclosed are the preliminary responses and actions that will be taken by the Henderson Town Government to correct any known oversight deficiencies or inadequacies of the internal controls over selected financial operations in the Town of Henderson, New York.

Due to the delay in the exit discussions with the New York State Comptroller's auditor and the Henderson Town Board members, this letter responding to your preliminary draft findings is late. Hopefully, our responses and actions being taken are acceptable to your office.

Please contact me if you have any concerns or need additional clarification of our future actions.

Very truly yours,



Raymond A. Walker
Supervisor, Town of Henderson

RAW: pw

Enclosure

Cc: Carol Hall, Councilor
Torre Parker-Lane, Councilor
Charlotte Richmond, Town Clerk
Frank Ross, Councilor

February 12, 2010

1. The Town Clerk will issue pre-numbered duplicate receipts for all money received for copies, faxes, and FOIL requests even though those transactions may be less than one dollar. The Town Supervisor will review and verify the above receipts monthly, comparing them to the Town Clerk's bank reconciliations and records.
2. All transactions, including C & D (construction and demolition material disposal), at the Recycling and Transfer Station will be done exclusively by all users purchasing individual unique pre-numbered tickets of different denominations. The Town Clerk will prepare, number, record the number sequence and issue those tickets to the Station employees. These pre-numbered tickets will be considered acceptable receipts. At the end of the day, the Transfer Station employee will prepare a signed sales report that lists ticket sales by ticket number and total dollar amount. This sales report and money collected will be remitted to the Town Clerk. The Town Clerk will verify the ticket numbers sold and the money collected in the presence of the Transfer Station employee, signing said sales report. That sales report is then copied and given to the Transfer Station employee to be placed in the records located at the Transfer Station office. Due to the fact that the Transfer Station is open on Saturdays and Sundays but not on Mondays, the transactions of Saturday and Sunday will be recorded and verified by the Town Clerk and a Transfer Station employee on the following Tuesday morning. Monthly, a Town Board member, who is the liaison to the Transfer Station, and/or the Town Supervisor will review and verify the Transfer Station's transactions, comparing them to the Town Clerk's records and bank reconciliations.
3. The Town Clerk will verify the money received from the Sanitation/Water District vending station and sign that report/receipt in the presence of that Foreman. A copy of that signed report will be given to the Foreman to be placed in a Water District records file located at the Transfer Station office. The Town Supervisor and/or a Town Board member liaison to the Town Clerk will review and verify the receipts monthly.
4. Presently, the Town Clerk receives the water rental revenue from the quarterly billing. The Town Clerk issues a check from the Town Clerk's account to the Town Supervisor, which is deposited into the Town Supervisor's account. The Town Supervisor's bookkeeper records the water rental revenue in Water District Revenues, F-2142 (Metered Sales). The Town Supervisor and/or Town Board member liaison will review all customer adjustments. The Town Supervisor will review and verify the Town Clerk's quarterly water rental revenues.
5. The Town Supervisor's bookkeeper will calculate an interest rate that Water District #1 must pay to the Town's General Fund for the money advanced from the Town's General Fund to cover the Water District #1 operating deficit from 2003 to December 31, 2008. This interest will be paid by Water District #1 to the General Fund upon approval by the Town Board.
6. The Town Supervisor's bookkeeper will calculate an interest rate that Water District #2 will pay to the Town's General Fund for the money advanced from the General Fund for the various costs and fees associated with the start up of Water District #2. This interest will be paid by Water District #2 to the General Fund upon approval by the Town Board. Due to the fact that several users in the Water District(s) opt to pay their water rental bills (including the required late penalties and interest) with their taxes as a separate Water District line item for that user, the Town's General Fund pays that amount to the Water District(s) at the end of the Water Districts' fiscal year. In late

Raymond Walker, Supervisor
Frank Ross, Deputy Supervisor
Carol Hall
Torre Parker-Lane

TOWN OF HENDERSON

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Charlotte Richmond, Town Clerk

January of the following year, that money which is listed on the Water District user's tax bill is reversed to the Town's General Fund. No interest is charged to the Water District.

7. Several additional items that were not stated on the Draft Report of Examination but were brought up by the Comptroller auditor are being reviewed by the Town Board. These include:
- Payroll certification – now being done by the Highway Superintendent for the Highway employees and the Town Supervisor for all others.
 - Abstract certification by the Town Clerk – being implemented.
 - All checks to be deposited are now being signed as "Deposit Only."
 - Board annual audit will be instituted.
 - Time sheet certification – Town Supervisor and Town Board member liaison will certify the accuracy of hourly employees' time sheets before sending to the Town Supervisor's bookkeeper.
 - Computer security, disaster recovery and use policy – Town Board will review and initiate policy and procedure.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

During the initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents, such as Town policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the Town's computerized financial databases and analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the Town's financial transactions as recorded in its databases. Further, we reviewed the Town's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected cash receipts and the water districts' fund equity for further audit testing.

For cash receipts, we focused on the procedures for receiving and recording cash. To determine the effectiveness of internal controls and to evaluate the effect of deficiencies in those controls, we performed the following steps:

- We reviewed 2007 and 2008 real property taxes collected and interest earned on tax moneys held by the Town Clerk and verified whether they were remitted to the Supervisor (\$326,512 in 2007 and \$429,538 in 2008) and Jefferson County Treasurer.
- We traced State aid payments from the State Comptroller totaling \$167,604 for the audit period to the Supervisor's accounting records.
- We verified that as of October 31, 2008, all moneys held by the Town Clerk were subsequently properly remitted in November to the Supervisor, Jefferson County Treasurer, and State.
- We traced information from the Town Clerk's cashbook for May to July 2007, and September 2008 to November 2008, to the Town Clerk's deposits, monthly reports, canceled checks, and Supervisor's cashbook.
- We accounted for six months worth of trash tickets totaling \$80,591 sold by transfer site employees and remitted to the Town Clerk.
- We compared meter readings on the vending machine for water sales to the list maintained by the sanitation foreman's (\$313) and compared the Town Clerk's list to the sanitation foreman's list for January 2008 to September 2008, which totaled approximately \$4,100.
- We reviewed boat mooring site records maintained by the harbormaster for 2007 and 2008 and compared them to mooring site receipts listed on the Town Clerk's monthly reports, totaling \$5,880 in 2007 and \$6,925 in 2008.

- We traced September 2008 water rent usage readings from the usage report to the billing report for 15 of 178 accounts.
- We calculated September 2008 water rent billings for 15 accounts on the billing report, and verified that rates agreed with the Board-approved schedule of water rents.
- We traced September 2008 water rent billing report totals (\$24,449 in current billings and \$32,291 with arrears) to the Town Clerk's water rents receivable control account. We traced cash credits from June 2007 and September 2008 for 15 accounts from the water rents receivable control account to the cash receipts book to deposits on the bank statements.
- We traced customer account adjustments from the June 2007 and September 2008 water rent billing reports to supporting documentation to assess the reasonableness of the adjustments.
- We traced \$10,341 in unpaid balances on the billing report as of October 2008 to the 2009 tax roll to verify whether the unpaid water rents were included on the ensuing tax roll.
- For the water districts' fund equity, we focused on the accounting and reporting of interfund advances and transfers between the water districts and other Town funds from 2000 through 2008.

We conducted our 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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AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
John C. Traylor, Assistant Comptroller

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