



Town of Stephentown

Records and Reports

Report of Examination

Period Covered:

January 1, 2008 — December 31, 2011

2012M-209



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2013

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Stephentown, entitled Records and Reports. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of Stephentown (Town) is located in Rensselaer County and has a population of approximately 2,900. The Town Board (Board) consists of four council members and the Town Supervisor (Supervisor), and is responsible for managing Town operations and overseeing the Town's financial affairs.

The Town offers services to its residents that include a Justice Court, highway maintenance, transfer station services, and a youth program. The Town's budgeted expenditures for 2012 were approximately \$1.4 million, which were funded primarily with real estate taxes, sales tax, and State aid.

The Supervisor serves as the Town's chief financial officer and chief executive. The current Supervisor has been in office since 2010 and uses the financial accounting system that has been in place since 2008. He is responsible for maintaining custody of all Town moneys, maintaining accounting records, and filing required financial reports. He is also responsible for providing the Board with timely, accurate, and useful financial information so that the Board can make informed financial decisions. The Supervisor has appointed a bookkeeper to assist him with his accounting duties. The former Supervisor, who initially set up the accounting system, performed the accounting duties without the services of a bookkeeper.

Objective

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

- Does the Town prepare and maintain complete and accurate accounting records and financial reports?

Scope and Methodology

We interviewed Town officials and examined financial records and reports for the period January 1, 2008, to December 31, 2011.

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 A, have been considered in preparing this report. Except as specified in Appendix A, Town officials generally agreed with our

recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the Town's response letter.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

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 its bank. If the Supervisor assigns these duties to a bookkeeper, he should provide sufficient oversight to ensure the bookkeeper's records are reliable and up-to-date. Also, there should be supporting documentation and supervisory approval for any adjusting journal entries. The Supervisor is 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 monthly bank reconciliations during our entire audit period. The Supervisor has not filed the required AUD with OSC for the past three years.¹ As a result, the Board could not properly monitor and manage Town operations.

Accounting Records

The Supervisor is required by Town Law to keep a complete and accurate account of the receipt and disbursement of all moneys. All general ledgers, cash receipt and disbursement journals, and subsidiary revenue and appropriation ledgers must be maintained in a complete, accurate, and timely manner. If the Supervisor assigns these duties to a bookkeeper, the Supervisor must provide sufficient oversight to ensure that suitable records are maintained and financial information is recorded accurately and on a timely basis.

General Ledger Accounts – The general ledger is a detailed accounting for assets, liabilities and equity (fund balance) accounts, and revenue, expenditure and budgetary control accounts. Any adjusting journal entries that need to be made to the records should have supporting documentation and approval.

The Town has not implemented procedures to ensure the journal entries to the general ledgers prepared by the bookkeeper are reviewed and approved. Furthermore, the bookkeeper made various journal entries to balance the Town's records for the general, highway, and trust and agency funds.

¹ As of October 1, 2012, the Town had not filed for fiscal years ending December 31, 2009, through 2011.

To summarize the changes made by the bookkeeper, we created a timeline for the adjustments that were made to the accounting records during our audit period as follows:

- Beginning in March 2010, various adjusting journal entries were made that mostly affected cash balances. The bookkeeper stated that she did not attempt to reconcile the December 2009 bank statements prior to making adjusting journal entries to ending cash balances for December 31, 2009.
- In May 2010, additional adjustments/journal entries were made (including to cash) to correct the balance of all funds (debits and credits).
- In October 2010, journal entries were posted as a result of the January 2010 through September 2010 bank reconciliation error of \$40,299 that had been outstanding for the entire year.
- On February 25, 2011, cash in the amount of \$35,009 was transferred from the trust and agency bank account to the general operating bank account based on the previous journal entries and calculations.² However, this transfer of cash occurred without reconciliations of prior-year bank accounts and a full understanding of the reason for the amount being transferred from one fund to the other.

Year-End Closing – At the end of each fiscal year, revenues and expenditures should be closed to fund balance, so that at the beginning of each year, revenues and expenditures start at zero again. The bookkeeper has not annually closed the accounting records in a timely manner. The accounting records for fiscal year ending December 31, 2011, were not closed as of the end of our fieldwork. In addition, the accounting records for December 31, 2008, and December 31, 2009, were closed in August 2010, and the accounting records for December 31, 2010, were closed in September 2011. Although our limited testing showed that revenues and expenditures had been posted correctly,³ fund balance has not been updated appropriately because the accounting records were not closed in a timely manner.

² The bookkeeper prepared a worksheet to compare the bank balances to the computer system balances for cash as of December 31, 2009. The corresponding adjusting journal entry which was attached to the worksheet has a journal entry date of December 31, 2009, but was processed by the bookkeeper on March 3, 2010.

³ See Appendix C, Audit Methodology and Standards, for additional details on our testing.

Bank Reconciliations – It is important that the Supervisor perform monthly bank reconciliations. Any differences 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 three bank accounts identified as the general operating, trust and agency, and transfer station accounts.⁴ We tested to determine if bank statements were available for these accounts and if adequate and timely bank reconciliations had been completed for all three accounts from 2008 through 2011.⁵ We found the following:

- Seven of the 48 bank statements were not available for our review. The seven missing bank statements were all for the transfer station account: four in 2008 and three in 2009.
- Of the 41 bank statements that were available, 17 did not have adequate bank reconciliations completed. This includes all bank statements tested for the general operating and trust and agency accounts in 2008 and 2009 and the transfer station bank account for December 2009.
- In 2010 and 2011, the current bookkeeper indicated that she performed bank reconciliations for all accounts. However, we found that not all of the bank reconciliations had been completed in a timely manner. Also, we were unable to locate all of the formal bank reconciliations and balance sheet reports used to reconcile the trust and agency account for the four months reviewed in 2010.

As part of our testing, we also reconciled the December 31, 2011, bank statements for all three accounts. The general operating and the trust and agency reconciliations have funds that have not been posted to the general ledger and need to be researched and corrected by the bookkeeper. Amounts totaling \$5,300 for each fund are for transactions that occurred in February and November 2011.

Although accounting records and reports are prepared and maintained by the Town, the records may not have been updated accurately and have not been consistently prepared on a timely

⁴ The general operating bank account is where the general fund and the highway fund receipts are deposited, the trust and agency bank account is where all payroll and payable disbursements checks are processed, and the transfer station bank account is where transfer station receipts are deposited.

⁵ We tested all three bank accounts on a quarterly basis for the months of March, June, September, and December during the four-year period from January 1, 2008, through December 31, 2011.

basis. Furthermore, journal entries were made without supporting documentation or supervisory approval other than the Supervisor initiating the cash transfer and the bookkeeper's various explanations to the Board. As a result of these weaknesses, the Board does not have the financial information necessary to make decisions about the Town's operations.

Financial Reports

The Supervisor is responsible for filing the Town's AUD with OSC within 60 days following the close of the fiscal year. In addition, accurate accounting records are essential to maintain accountability over financial resources. The Supervisor is responsible for maintaining and providing the Board with accurate financial information. Town officials should be able to generate accurate and reliable financial reports from their system for any prior time period. If the Board is not provided with accurate information, it is limited in making informed financial decisions.

Subsequent to filing the 2008 AUD, the former Supervisor made changes to the Town's account balances for cash and unreserved, unappropriated fund balance⁶ in both the general and highway funds, resulting in account balances in the Town's records not agreeing with the 2008 AUD. The bookkeeper performed limited research of the accounting records which occurred during the former Town Supervisor's term of 2008 through 2009.

Because of the lack of complete, adequate, and timely records, the Supervisor could not prepare and file the subsequent AUDs. The last AUD filed by the Town was for the 2008 fiscal year. Although the current Supervisor's term began on January 1, 2010, it is his responsibility to file the AUD for 2009. As of the end of fieldwork, the Supervisor has not filed AUDs with OSC for 2009, 2010, or 2011.

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.

Recommendations

1. The Supervisor should ensure that the Town's accounting records are complete, accurate, and maintained in a timely manner.
2. The Supervisor should review supporting documentation and approve journal entries prior to the bookkeeper recording the entries in the computer system.

⁶ As reported at the time

3. The bookkeeper should perform complete and accurate monthly bank reconciliations and ensure that any differences disclosed by the reconciliation process are promptly identified and resolved.
4. The Supervisor should file the Town's annual update document with OSC for fiscal years ending December 31, 2009, 2010, and 2011.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Town of Stephentown

26 Grange Hall Road, Stephentown, NY 12168

Office of the Supervisor
Larry Eckhardt - Supervisor
March 18, 2013

Phone: 518-733-9195
Fax: 518-733-6492

To whom it may concern,

The Town board of the Town of Stephentown, Rensselaer County, New York thanks you and your staff for the time and effort committed to performing an OSC audit for our town. The process started during December 2011 and continued sporadically for five (5) months. During this period, employees of the OSC and various town officials and employees worked together to highlight information to help the OCS and the town provide the tax payers of the town with a clear picture of the financial status and fiscal practices of the town board and other officials. The draft audit report was presented to the town February 28, 2013. The timeframe audited was January 1, 2008 thru December 31, 2011

The OSC has presented the Town with a report of examination and a list of recommendations to the town officials for corrective action. This letter intends to cover both the response to the report and a corrective action plan. (CAP)

The most encouraging outcome of this audit is the consensus that taxpayer money has been accounted for and there appears to be no evidence of fraud or misappropriation. The town board is in agreement with this finding. The audit details the bank statement reconciliation from Jan 1, 2010 to Sept 30, 2010 to show that the Town had more cash (\$40,299) in bank funds than our accounting program balance attested. This finding supports the boards' consensus of the deficient accounting conditions that were present when the current supervisor took office Jan 1, 2010.

See
Note 1
Page 14

Also obvious from the audit findings is the inability of the present supervisor to properly submit the AUD (annual update document) to the OSC because of the many errors in the 2008 AUD that was submitted by the previous supervisor. Again, the board is agreement with this finding. Even after many attempts by the current supervisor to provide the needed information for an accurate AUD, the system would not allow any submission without all accounts in proper balance. There is no doubt that the frustration was evident from both the town officials and the OSC audit team.

See
Note 2
Page 14

The report indicates that despite the ongoing efforts of the supervisor and the bookkeeper, the town board lacks the necessary information to make sound financial decisions for the town. The town board **does not** agree with this statement. It is our belief that every effort has been made by the supervisor and the bookkeeper to correct the deficiencies that existed before Jan 1, 2010 and implement procedures to bring the books into balance with bank statements and the accounting system. The information provided at monthly board and workshop meetings has been as timely and accurate as we can present them. Our yearly town budget process has also been greatly enhanced by the information provided by the supervisor and bookkeeper.

See
Note 3
Page 14

The remainder of the town board's response is generally covered by the CAP.



Town of Stephentown

26 Grange Hall Road, Stephentown, NY 12168

Office of the Supervisor
Larry Eckhardt - Supervisor
Page 2,

Phone: 518-733-9195
Fax: 518-733-6492

Town of Stephentown CAP to the OSC audit:

Recommendations from OSC

First, the supervisor should ensure that the town's accounting records are complete, accurate and maintained in a timely manner.

Second, the supervisor should review supporting documentation and approve journal entries prior to the bookkeeper recording the entries in the computer system.

Third, the bookkeeper should perform complete and accurate monthly bank account reconciliations and ensure that any differences disclosed by the reconciliation are promptly identified and resolved.

Last, the supervisor should file the Town's AUD (annual update document) with OSC for fiscal years ending December 31, 2009, 2010 and 2011.

Town of Stephentown CAP

- 1) The supervisor will continue to ensure that the town's accounting records are complete, accurate and maintained in a timely and efficient manner. The bookkeeper will provide pertinent documents for official signature after each accounting session. This will provide an additional review of journal entries before the monthly accounting is balanced and presented to the board.
- 2) The supervisor and the bookkeeper both do not believe that reviewing journal entries before they are entered into the accounting program is a very productive, useful or fruitful use of their or anyone else's time. The procedure outlined in set #1 is, and should be sufficient for this purpose.
- 3) The bookkeeper will continue to perform complete and accurate monthly bank reconciliations and report any differences disclosed by the reconciliation to the supervisor. The supervisor and the bookkeeper will then identify what the discrepancies are and promptly resolve the problem. The supervisor will initiate an on-line access by June 30, 2013 for all town bank accounts under his control, allowing faster response with bank statements and reconciliation.
- 4) The supervisor will continue to work with the OSC and the bookkeeper to prepare the documents necessary for submitting the AUD starting with the corrected 2009 accounting year and moving forward with years 2010, 2011 and 2012. This process has been jumpstarted by conversations initiated during this audit process and has been a focus of the supervisor and bookkeeper for nearly three (3) years. We anticipate having this necessary document completed, provided we have quick response from the OSC, by the end of December 2013.

See
Note 4
Page 14

This concludes the Response and CAP for the recommendations provided by the OSC.



Town of Stephentown

26 Grange Hall Road, Stephentown, NY 12168

Office of the Supervisor
Larry Eckhardt - Supervisor

Phone: 518-733-9195
Fax: 518-733-6492

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Thanking you in advance for your consideration,
Sincerely,

Lawrence (Larry) Eckhardt – Supervisor

William (Bill) Jennings – Town Council

Philip (P.J.) Roder – Town Council

Christopher (Chris) Demick – Town Council

John Meekins – Town Council

Stephanie Wagar – Town Clerk

Maureen Seel – Town Bookkeeper

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

As a point of clarification, the audit report states that that there was a bank reconciliation error totaling \$40,299 that had been left outstanding for an entire year.

Note 2

OSC's electronic filing system for AUDs has numerous built-in controls to prevent reports from being filed with unbalanced schedules and reports. These controls are in place to ensure the Town files accurate and balanced information that reflects the true account balances and annual results of operations. Because the accounting records were not accurate and balanced, the Town could not file its AUDs with OSC. Town officials should continue with their efforts to resolve the deficiencies in the accounting records so accurate AUDs can be filed.

Note 3

The Town has not filed an AUD since the current Supervisor took office on January 1, 2010. Despite the efforts of the Supervisor and bookkeeper, the last AUD filed with our office was for the 2008 fiscal year. Without an accurate annual report of the Town's financial activities, the Board does not have sufficient information to make sound financial decisions. Furthermore, the lack of AUDs prevents the Town's taxpayers from being informed of the Town's annual results of financial operations.

Note 4

Because the bookkeeper is the only person responsible for preparing and entering journal entries into the records, good internal controls and business practices dictate that another individual review the work to ensure entries are accurate and appropriate. Review of the journal entries prior to recording them is a basic, but crucial, control to minimize the risk for irregularities and fraud with the handling of and accounting for Town funds.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if internal controls over selected financial activities were appropriately designed and operating effectively. 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/control environment, Supervisor's records and reports, cash management, cash receipts and disbursements – Supervisor's office, Justice Court revenues, transfer station, Town Clerk revenues, building department revenues, cash receipts – taxes, purchasing, purchasing – claims processing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate Town officials to gain an understanding of the internal control structure and determine the effectiveness of such controls. We also performed limited tests of transactions and reviewed pertinent documents such as adopted policies and procedures, Board minutes, and financial records and reports. Through our completion of the IT questionnaire, we gained an understanding of the Town's information systems controls. 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 inherent control risks. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected records and reports for further audit testing.

To accomplish the objective of this audit, we performed the following audit procedures:

- We interviewed Town officials and reviewed Board minutes and policies to gain an understanding of internal controls over the Town's records and reports.
- We reviewed adjusting journal entries provided to us by the bookkeeper during our audit period. We also reviewed the trial balances with detail to determine if any other adjusting journal entries were made to balance sheet accounts during our audit period. Upon our request, the bookkeeper provided us with the additional adjusting journal entries.
- We interviewed the bookkeeper and reviewed Town records to determine when the accounting records were closed for fiscal years ending December 31, 2008, through December 31, 2010.
- We reviewed bank statements and bank reconciliations on a quarterly basis from 2008 through 2011 for the Town's general operating, trust and agency, and transfer station bank accounts for completeness and adequacy.

- We performed bank reconciliations as of December 31, 2011, which is the last month of our scope period, for the Town's general operating, trust and agency, and transfer station bank accounts to verify if the reconciliations prepared by the bookkeeper are accurate and complete. We completed our bank reconciliations by tracing to source documents.
- We interviewed the Supervisor and confirmed with our records to determine if the AUDs were filed on a timely basis.
- We compared the 2008 AUD filed with OSC to the Town's accounting records. We also reviewed the changes made to the 2008 AUD by the former Town Supervisor.

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

APPENDIX D

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