



# Town of New Paltz

## Fiscal Oversight and Internal Controls Over Financial Operations

### Report of Examination

Period Covered:

January 1, 2010 — March 16, 2011

2012M-99



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

September 2012

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 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 Town of New Paltz, entitled Fiscal Oversight and Internal Controls Over Financial Operations. 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

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# EXECUTIVE SUMMARY

The Town of New Paltz (Town) is located in Ulster County and has a population of approximately 14,000. The Village of New Paltz is located within the Town's boundaries. The five-member Town Board (Board), including the Town Supervisor (Supervisor), is the legislative body responsible for managing Town operations. The Supervisor also serves as the Town's chief executive officer, budget officer, and chief fiscal officer. During 2010, the Town had 74 full-time employees, 42 part-time employees, and 51 seasonal workers. The Town also has a number of special districts, including water and sewer districts, which provide services to the residents within each district. For the year ended December 31, 2010, the Town budgeted total operating expenditures of over \$11 million in its major operating funds.

### **Scope and Objective**

The objective of our audit was to review the Board's fiscal oversight, the financial condition of the water and sewer districts, and internal controls over selected financial operations for the period January 1, 2010 through March 16, 2011. We also reviewed selected financial information prior and subsequent to that period to provide historical perspective regarding the Town's financial condition and accounting records. Our audit addressed the following related questions:

- Are Town officials effectively monitoring the financial condition of the water and sewer districts?
- Did the Board adequately monitor the Town's fiscal affairs?
- Are internal controls over departmental cash receipts appropriately designed and operating effectively?
- Are internal controls over information technology (IT) appropriately designed?

### **Audit Results**

The Town has experienced a series of unplanned operating deficits in two of its water districts and one of its sewer districts in recent years. These deficits were caused by inaccurate budget estimates and the Board's insufficient monitoring of financial operations throughout the year. The resulting decline in fund balances has, in turn, caused the districts to experience cash flow problems. The Town has addressed the need for cash for these districts in the short-term by using advances from other districts and funds. However, the Board has not adequately monitored the financial operations, which resulted

in the advances not being paid back prior to the end of the fiscal year. Unless these budgetary and cash flow problems are addressed, future Town operations could be adversely impacted.

The Board did not provide the necessary oversight of the Supervisor, and other Town officials and staff, and did not establish internal controls that ensured the Town's financial activity was accurately recorded and reported on a timely basis. Further, the Board failed to ensure that the Supervisor maintained and filed all records and reports in a timely manner. As a result, significant accounting deficiencies occurred and the Board did not have reliable information on which to base management decisions. In addition, the Board did not audit the Supervisor's and individual departments' records and reports on an annual basis, as required.

The Board needs to improve internal controls over cash receipts. Due to the numerous deficiencies in the cash receipt process, Town officials have no assurance that proper amounts were collected, or that all collected amounts were properly recorded and deposited. We reviewed deposits representing 1,352 individual receipts totaling \$96,148. While we found no material discrepancies between amounts recorded as received and the amounts deposited, there is no assurance that all cash is collected at approved rates, or that all cash collected is properly recorded or deposited. Therefore the potential exists for errors or irregularities to occur and not be detected.

Town officials have not established adequate internal controls to effectively safeguard the Town's computer system and data. The financial software administrator is an individual who also performs incompatible financial duties. IT system administration duties are performed by an outside consultant without a contract and the Town does not monitor use of the computer system by its employees. The Board did not establish any formal procedures related to approving, initiating, documenting, reconciling, or monitoring wire transfers. Also, Town officials have neither documented nor monitored user access to the computer system. Town officials have also not established a disaster recovery plan, or a breach notification policy. As a result of these weaknesses, the Town's IT system and electronic data are at increased risk of loss, misuse and manipulation.

### **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 New Paltz (Town) is located in Ulster County and has a population of approximately 14,000. The five-member Town Board (Board), including the Town Supervisor (Supervisor), is the legislative body responsible for managing Town operations. The Supervisor also serves as the Town's chief executive officer, budget officer, and chief fiscal officer. The Town Clerk also acts as Tax Collector, and is responsible for building department and water and sewer collections. During 2010, the Town had 74 full-time employees, 42 part-time employees, and 51 seasonal workers.

The Village of New Paltz (Village) is located within the Town's boundaries. As a result, the Town budgets for and provides certain services to resident's town-wide and other services to residents outside of the Village (part-town). For example the Town budgets for and provides for parks and recreation services and the police department on a town-wide basis. Services such as building services and road repair and maintenance are budgeted on a part-town basis. The Town also has a number of special districts, including water and sewer districts, which provide services to the residents within each district. For the year ended December 31, 2010, the Town budgeted total operating expenditures of over \$11 million in its major operating funds.

## Objective

The objective of our audit was to review the Board's fiscal oversight, the financial condition of the water and sewer districts, and internal controls over selected financial operations. Our audit addressed the following related questions:

- Are Town officials effectively monitoring the financial condition of the water and sewer districts?
- Did the Board adequately monitor the Town's fiscal affairs?
- Are internal controls over departmental cash receipts appropriately designed and operating effectively?
- Are internal controls over information technology (IT) appropriately designed?

## Scope and Methodology

We examined the Town's financial activities for the period January 1, 2010 to March 16, 2011. We also reviewed selected financial information prior and subsequent to that period to provide historical perspective regarding the Town's financial condition and accounting

records. Our audit identified areas in need of improvement concerning IT controls. Because of the sensitivity of some of this information, certain vulnerabilities are not disclosed in this report, but have been confidentially communicated to Town officials so that they can take corrective action.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

### **Comments of Local Officials and Corrective Action**

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

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

## Financial Condition

A local government's financial condition reflects its ability to provide and finance services on a continuing basis. A local government is considered to have sound financial health when it can consistently generate sufficient revenues to finance anticipated expenditures, and maintain sufficient cash flow to pay bills and other obligations when due. Conversely, local governments in poor financial condition often experience recurring unplanned operating deficits. Persistent unplanned operating deficits are usually indicative of poor budgeting and can result in cash flow problems and fund balance deficits.

The Town has four water districts serving approximately 270 customers and three sewer districts serving approximately 190 customers. The Town has experienced a series of unplanned operating deficits in two of its water districts and one of its sewer districts in recent years. These deficits were caused by inaccurate budget estimates and the Board's insufficient monitoring of financial operations throughout the year. The resulting decline in fund balances has, in turn, caused the districts to experience cash flow problems. The Town has addressed its need for cash for these districts in the short-term by using advances from other districts and funds. However, these funds have not paid back the advances prior to the end of the fiscal year. Unless these budgetary and cash flow problems are addressed, future Town operations could be adversely impacted.

### **Budgeting and Fund Balances**

The budget identifies the cost of services to be provided to citizens in the coming year, the sources of financing for those services, and how the two components are balanced. It is essential that Town officials adopt structurally balanced budgets for all of its operating funds so that recurring revenues finance recurring expenditures and a reasonable fund balance is maintained. Effective management includes monitoring budgets during the course of the year and making any needed budgetary amendments to address revenue shortfalls or costs that exceed appropriations. Recurrent operating deficits usually indicate a failure to ensure that budgets are realistic and properly monitored.

The Board approved budgets for water and sewer districts that were not realistic. The actual amounts collected from water and sewer district users repeatedly fell short of the budgeted revenue estimates. Although the operating deficits in the water and sewer districts occurred primarily as a result of revenue shortfalls, overexpenditures also contributed to sewer district #6's deficits. For example, the sewer district #6 2009 budget of \$59,000 was overspent by \$16,000 (27

percent), and the 2010 budget of \$62,500 was overspent by \$12,000 (19 percent).

User charges constitute the major source of revenue for the water and sewer funds. The Board has not set water or sewer rates at a level which would generate revenues sufficient to meet the amount budgeted. Further, the Board has not adequately monitored expenditures in the sewer district.

As illustrated in the tables below, the combined shortfalls in revenues contributed to operating and fund balance deficits in three of the water and sewer district.

Table 1: Water Sales and Sewer Rents									
	Water District #3			Water District #4			Sewer District #6		
Fiscal Year End	Budget	Actual	Under Budget	Budget	Actual	Under Budget	Budget	Actual	Under Budget
2008	\$27,380	\$11,285	(\$16,095)	\$18,637	\$11,447	(\$7,190)	\$38,703	\$32,254	(\$6,449)
2009	\$22,918	\$12,706	(\$10,212)	\$21,887	\$10,622	(\$11,265)	\$44,768	\$30,708	(\$14,060)
2010	\$24,000	\$17,906	(\$6,094)	\$24,755	\$11,471	(\$13,284)	\$48,997	\$29,910	(\$19,087)

At December 31, 2010, the fund balance deficits in water district #3 and #4, and sewer district #6 were \$18,783, \$18,200, and \$61,635, respectively.

Table 2: Water and Sewer Fund Deficits									
	Water District #3			Water District #4			Sewer District #6		
Fiscal Year End	Operating Deficit <sup>b</sup>	Fund Balance Deficit	Deficit % <sup>a</sup>	Operating Deficit	Fund Balance Deficit	Deficit % <sup>a</sup>	Operating Deficit	Fund Balance Deficit	Deficit % <sup>a</sup>
2008	(\$6,462)	(\$5,770)	21%	(\$5,533)	(\$2,781)	13%	(\$9,761)	(\$10,144)	17%
2009	(\$6,432)	(\$12,202)	43%	(\$7,489)	(\$10,270)	41%	(\$20,285)	(\$30,429)	49%
2010	(\$6,581)	(\$18,783)	73%	(\$7,930)	(\$18,200)	93%	(\$31,206)	(\$61,635)	106%
<sup>a</sup> Fund Balance Deficit as a Percentage of Subsequent Year's Appropriations									
<sup>b</sup> Operating at a loss									

## Cash Balances and Advances

An essential component of financial condition is ensuring that sufficient cash resources are available to pay vendors in a timely manner and to meet payroll obligations. To ensure that cash is available as needed, Town officials should develop cash flow projections to help identify potential cash deficiencies, and monitor cash balances throughout the year. When a fund does not have sufficient cash to meet its current obligations, one available option is to obtain loans (advances) from other funds.

General Municipal Law (GML) authorizes a town to temporarily advance moneys that are not immediately needed in one town fund to any other town fund (with certain restrictions). The Board is required to approve all interfund advances, and must ensure that all temporary

interfund borrowings are repaid as soon as funds are available, but no later than the close of the fiscal year in which the advance was made. When an advance is made between funds that are supported by different tax bases, repayment must include an amount reasonably equivalent to the amount of interest that would have been earned on the investment of the moneys that were advanced.

While the Town may commingle or pool fund moneys held in its bank accounts, the accounting records must identify the source and recipient funds and show the exact amounts advanced and owed to each fund because each fund represents services provided to, and paid for by, a specific group of taxpayers. The Town commingled funds of its four water districts, three sewer districts, fire protection district, and four storm water districts in a common bank account known as the “Special District Account.”

Water districts #3 and #4 did not have sufficient cash resources to finance operations in 2008, 2009 and 2010, and sewer district #6 did not have sufficient cash in 2009 and 2010, due to recurring operating deficits. To fund operations in these districts, Town officials used cash that was available in the Special District Account, in effect advancing moneys from other funds. These advances were done without Board approval. The advances were not recorded as cash advances, but rather were reported as negative cash balances in the districts’ records. At December 31, 2010, water districts #3 and #4 had negative cash balances of \$26,363 and \$30,826, respectively. Sewer district #6 had a negative cash balance of \$67,799. Because the accounting records did not identify the specific special district that was advancing the money, Town officials cannot properly calculate or allocate the repayment of these loans. This creates inequities among different tax bases and user groups. Revenues raised in the other districts were used to benefit users in water districts #3 and #4 and sewer district #6. Given these districts’ negative cash position and history of operating losses, it is unlikely that they will have sufficient moneys to repay the advances in the near future.

In addition, water district #1 and sewer districts #1 and #6 borrowed significant amounts from the Town’s general fund in 2010. During the year, general fund moneys were used to pay fund expenses. These amounts were properly recorded as interfund advances on the books of the general fund and special districts, and totaled approximately \$82,000 for 2010. They were not, however, paid back to the general fund by the end of the fiscal year as required by statute, even though both water district #1 and sewer district #1 had the cash resources available to make the repayment (as noted above, sewer district #6 had a negative cash balance). As a result, some Town taxpayers are in effect paying to fund multiple water and sewer district operations.

The Board's failure to properly manage the water and sewer districts' finances resulted in a reliance on unauthorized cash advances, which has effectively shifted the water and sewer funds' costs to other special districts and the Town's general fund. Town officials have not developed a plan to address the continuing operating deficits and growing fund balance deficits of water districts #3 and #4 and sewer district #6. If Town officials continue to rely on cash advances to compensate for revenue shortfalls and over-expenditures, the Town is at a significant risk of incurring further cash shortages that could jeopardize Town operations and the services it provides to its residents.

## **User Rates**

Town officials are responsible for ensuring that water and sewer district revenues are sufficient to finance operations. Good accounting practice requires a periodic review of user rates to help ensure they are sufficient to cover the cost of water and sewer services at desired levels.

We found no documentation of the Board reviewing or modifying water and sewer user rates since 2003. The Supervisor said the water and sewer rates have not been increased because required information is not being provided to the engineer, attorney, and accountant in a timely fashion. Even though the financial information may not be maintained or provided in a timely manner, a simple review of recent historical results would have revealed the operating and fund balance deficits of water districts #3 and #4 and sewer district #6, as well as their cash flow deficiencies. Without performing a periodic review and an analysis of district finances, Town officials cannot properly develop water and sewer rates that would provide sufficient revenues to cover the cost of operations.

Despite operational costs not being met by the annual revenue streams, there has been no corrective action taken for the districts with fund balance deficits. The failure of Town officials to routinely analyze the costs of district operations, align user rates and billings to achieve budgeted revenue, and ensure that expenditures do not exceed budgeted appropriations has caused the financial condition of the noted water and sewer districts to deteriorate.

## **Water and Sewer Estimates and Adjustments**

The Board should ensure that fees for services rendered are accurately billed and that no billing adjustments are made without prior Board approval. In the absence of actual meter readings, either by a meter reader or by a return card, the Board should establish reasonable guidelines for the water and sewer department staff to follow to estimate usage, including a limit to the number of estimated billings that may be used. Also, the Board or other authorized supervisory personnel should approve all billing write-offs/adjustments prior to

such adjustments being made. The reasons for all adjustments should be documented and retained.

The Town does not have written procedures for estimating and adjusting water and sewer billings. If the meter reader is unable to take a reading, the meter reader leaves a card at the property for the user to complete and mail to the Town. However, not all users complete and return the cards. Department billing staff are not provided with guidelines on estimating bills, or given a limit on the number of estimated billings that may be used. Also, the Town does not have procedures in effect to enforce an accurate meter reading, such as contacting the property owner or shutting off the water. Unpaid water and sewer bills (including estimated bills) are relieved on the tax bills annually in November.

To determine whether user charges were being billed at authorized rates, we reviewed a judgmental sample<sup>1</sup> of 27 water and 17 sewer billings from September 2010 to verify that rates agreed with the current Town schedule and that payments agreed with the amounts billed. We did not identify any exceptions based on our testing.

The lack of guidance on the use of estimated usage billings, and lack of Board approval of adjustments, increases the risk that the Town and its water and sewer districts may not generate the proper amount of revenues due to inaccurate billings.

## **Recommendations**

1. The Board should adopt realistic, structurally balanced budgets and maintain sufficient cash flow for operations.
2. The Board should closely monitor financial activity throughout the year and compare actual revenues and expenditures to budgets to prevent over-expenditures and to address any revenue shortfalls.
3. Town officials should prepare monthly cash flow projections and provide them to the Board to aid in making informed financial decisions.
4. The Board should develop a comprehensive plan for resolving fund balance deficits and cash flow deficiencies in the affected funds.
5. The Board should ensure that interfund advances are made and repaid in accordance with statute, and only with prior Board approval.

<sup>1</sup> We selected September because we expected those billings and payments to contain late fees.

6. Town officials should calculate the water and sewer rates to be billed, based on the annual cost analyses, and the Board should review the rates annually and revise them, if necessary, to generate sufficient revenue to cover appropriations.
7. The Board should develop written procedures for estimating and adjusting water and sewer billings, and establish a system for proper management of the Town's user charge billings and adjustments.

## **Fiscal Oversight**

Board members, individually and collectively, are the Town's fiscal stewards who are responsible for directing and overseeing the Town's financial activities. It is essential that Board members understand the extent of oversight required to meet their responsibilities. This requires the Board to establish internal controls that enable Town officials to monitor financial activity and obtain information for making management decisions, preparing realistic budgets, and maintaining a healthy and stable financial position for the Town. The Supervisor, appointed officials, and department heads also share responsibility for ensuring that internal controls and procedures are adequate and fully implemented. In addition, the Board is required to audit the Supervisor's and departments' records and reports on an annual basis to ensure that all Town moneys have been adequately accounted for and to ensure the timely filing of the Town's annual financial report.

The Board did not provide the necessary oversight of the Supervisor, Town Clerk, appointed officials, and employees, and did not establish internal controls that ensured the Town's financial activity was accurately recorded and reported on a timely basis. As a result, significant accounting deficiencies occurred and the Board did not have reliable information on which to base management decisions. In addition, the Board did not audit the Supervisor's and individual departments' records and reports on an annual basis, as required by law.

### **Accounting Records and Monthly Reports**

Complete, accurate, and timely financial information is essential for the Board members to properly manage Town finances. The Supervisor maintains the accounting records that are the basis for monthly reports presented to the Board. The monthly reports should include cash balances, cash receipts collected and cash disbursements made during the month, comparisons of actual revenues and expenditures to amounts estimated in annual budgets, and any other information deemed necessary by the Board.

The Board and Supervisor have not provided effective financial oversight and budgetary control. Complete reports needed to allow adequate financial oversight are not required. Although the Supervisor provides monthly reports, these do not include revenue information. Also, water and sewer rent revenues are not entered into the accounting system until late in the year. As a result, Town officials cannot adequately oversee financial condition and operations of the water and sewer district funds. Some departments provide periodic, but not necessarily monthly, reports to the Board. Because budget status

reports are not regularly generated, the Highway Superintendent, the Recreation Center and the Recycling Center maintain separate manual records or software programs for departmental budget control purposes.

The bookkeeper provides the Board with monthly disbursement reports and periodic reports of expenditure budget status. Without complete, accurate, and timely accounting records and reports, the Board cannot properly assess the Town's financial operations and financial condition on an ongoing basis. As a result, information presented to the Board did not show that water and sewer district funds had negative cash balances, operating deficits, and fund balance deficits (see finding entitled "Financial Condition").

The Board's failure to require that the Supervisor provide it with complete and up-to-date financial information is evidence of the lack of oversight and control. In addition, the lack of complete and timely reports increases the risk that budget appropriations could be exceeded and potential operating deficits could occur and remain undetected and uncorrected, resulting in the continued deterioration of the Town's financial condition.

## **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. To satisfy this requirement, the Board must either perform an audit or retain the services of an independent auditor to perform this function. The annual audit helps the Board fulfill its fiscal oversight responsibilities, provides assurance that public moneys are handled properly, and provides an opportunity to assess the reliability of the Town's books, records, and supporting documents on which it relies in making management decisions. Audit results can also help the Board to evaluate fiscal practices and monitor the performance of the Supervisor, other officials, and departments who are entrusted with recordkeeping and other financial responsibilities. While the Board is required to audit records at least annually, more frequent monitoring of the Town's financial activities can help reduce the risk that errors and/or irregularities will occur and go undetected.

The Board did not audit or cause to be audited the Supervisor's financial records or the records of other officials and departments that receive moneys, as required. The failure to perform an annual audit hinders the Board's ability to maintain accountability for Town assets, protect those assets from loss, waste or abuse, achieve fiscal objectives, and ensure that Town officers and employees follow established policies.

## **Annual Financial Report**

The Supervisor, as the chief fiscal officer, is responsible for filing the Town's annual financial report with the State Comptroller and the Town Clerk within 90 days after the close of the fiscal year.<sup>2</sup> This report, known as the annual update document (AUD), is an important fiscal tool which provides the Board with the financial information necessary to monitor Town operations, and provides other interested parties with a complete summary of the Town's financial activities. Properly completed and filed, AUDs increase the transparency of the Town's financial activity. It is important that the Town have procedures to ensure that the AUD is prepared and filed in a timely manner and is an accurate representation of the Town's financial position and results of operations.

The Town's AUDs have not been filed timely, or within the extension period. The AUDs for 2008 and 2009 were due at the end of March 2009 and 2010, respectively. However, they were not filed until August 2009 and August 2010, respectively. The 2010 AUD, due March 31, 2011 was not filed until September 20, 2011.<sup>3</sup>

The Supervisor and bookkeeper told us that the Town relies upon an independent accountant to assist with closing the accounting records and filing the AUD. However, it is the Supervisor's responsibility to ensure the timely and accurate filing of the AUD. The failure to file timely annual financial reports with the State Comptroller or the Town Clerk is indicative of problems with the Town's recordkeeping and diminishes the Board's ability to monitor and manage the Town's financial resources properly.

## **Town Clerk's Minutes**

The minutes of the Board proceedings serve as the Town's official record. It is important that Board minutes are permanently retained. Board minutes must contain a complete, detailed, and accurate account of all Board authorizations and decisions. Approved contracts, adopted budgets, audited and/or reviewed claims, established policies, periodic reports, and various authorizations, resolutions, and designations must all be part of the official record. At each Board meeting, the previous month's minutes should be reviewed, amended as needed, and adopted as the official record. Well-kept minutes are essential to formally document the Board's actions and to provide Town management and the public with information on the Town's operations. The Town Clerk has the duty of keeping a complete and accurate record of the proceedings of each Board meeting, and is required to make those minutes of the meetings available to the public within two weeks from the date of such meeting.

<sup>2</sup> A 30 day extension may be granted in certain circumstances.

<sup>3</sup> The 2011 AUD, due March 31, 2012 was not filed until August 23, 2012.

Although the Town Clerk kept audio recordings of the meetings, she did not prepare written minutes regularly and make them available to either the Board or the public. Because of the lack of timely Board minutes being available, Town officials and the public do not have a clear understanding of what took place at the Board meetings, and have no assurance that Town operations and moneys are being properly managed.

## **Recommendations**

8. The Board should improve its oversight of the Town's financial activities by requesting that the Supervisor provide monthly financial reports that include statements of moneys received and disbursed, budget to actual comparisons, fund balances and cash balances for each fund. The Board should use these monthly reports to monitor the Town's financial operations. The Board should also ensure that the Supervisor and bookkeeper maintain current and complete accounting records.
9. The Board should annually audit, or cause to be audited, the financial records and reports of the Supervisor and all other Town officers and employees who receive or disburse moneys on behalf of the Town.
10. The Board should ensure that the Supervisor prepares and files the required annual financial report with the State Comptroller and Town Clerk within 90 days after the close of the fiscal year.
11. The Town Clerk should prepare written minutes of the Board's proceedings within the timeframe required by statute.

## Cash Receipts

The Board is responsible for establishing an internal control system that provides reasonable assurance that cash and other resources are safeguarded. Town officials are responsible for implementing the Board's control directives by designing and documenting appropriate operating policies and procedures. Such policies and procedures should provide for individual accountability, ensure that cash receipts are properly accounted for, recorded, and deposited, and ensure that all moneys are kept secure.

The Board did not fulfill its responsibilities of stewardship, oversight, and leadership because it failed to establish policies and procedures for the collection of cash receipts. Due to the numerous deficiencies in the cash receipt process, Town officials have no assurance that proper amounts were collected, or that all collected amounts were properly recorded and deposited. While our tests of receipts identified no material discrepancies between amounts recorded as received and the amounts deposited, there is no assurance that all cash is collected at approved rates, or that all cash collected is properly recorded or deposited. Therefore, the potential exists for errors or irregularities to occur and not be detected.

### Recreation Center

The Board has not established policies and procedures for recording attendance, cash receipts, and prepayments for Recreation Center programs. Total Park and Recreation revenues in 2010 were \$125,743. The Town's fee-based Recreation Center programs have established discounts for seniors and youths and, for an additional fee, non-residents. Our review of the controls over these programs found that registration forms were not fully completed, and contained no documentation indicating that a Town employee had properly considered or determined if a discount or additional fee applied to the applicants. The Recreation Center's prepared attendance rosters were also used to document cash receipts. While instructors were given the attendance rosters to complete, they were not given instructions on how to complete the forms. The majority of programs in 2010 were pay as you go, although monthly payments were also accepted. Participants did not receive receipts for amounts paid. The Recreation Director periodically gives the Town bookkeeper an envelope with the program receipts, and a copy of the program's monthly roster. These rosters may have a week, several weeks, or the month listed, and do not clearly indicate the amounts paid by participants.

It would be impossible for Town officials to reconcile participant rosters to the money collected and deposited, since adequate records

and daily collection sheets were not maintained, and receipts were not issued. When cash count information cannot be verified, the Town cannot be sure all cash collected is properly recorded and deposited, and there is an increased risk that moneys may be misappropriated.

## Recycling Operations

Controls over the recycling center require policies and procedures that should include the issuance of press-numbered recycling center coupons and annual permits in sequence, a comparison of the amounts collected with the amounts deposited, conducting periodic inventories of the coupons and permits, and adequate supervision of those handling moneys. It is essential that Recycling Center staff maintain an inventory of all coupons and permits ordered, issued, and sold. An accurate inventory is an effective tool that could allow Town officials to ensure that all coupon and permit sales are accounted for and would help Town officials monitor sales operations more effectively.

The Recycling Center gate attendant checks entering vehicles for permits<sup>4</sup> and items to be disposed, and requests the appropriate payment or coupons.<sup>5</sup> The gate attendant also issues coupons and permits. Once the user has passed the gate, the user has free access to the recycling center. A second staff person on the grounds, however, monitors disposal of the items. The Town collects for disposal by the bag, item, or yard. The gate attendant has access to all annual permit stickers and coupon books in a room in the recycling office, and retains all used coupons. Total 2010 refuse and garbage revenues were \$73,152.

The Board did not ensure that comprehensive policies and procedures were in place to provide adequate control over Recycling Center cash receipts. Recycling Center employees did not maintain an accurate inventory of permits or coupons. Additionally, the Board and Town officials did not perform a periodic review of the Recycling Center's records, or perform a reconciliation of permits and coupons issued to money received. As a result, Town officials could not ensure that all coupon and permit sales were all accounted for and properly deposited. The lack of controls over the permits and coupons exposes the Town to potential revenue loss and, and without reliable inventory records, these assets are at increased risk of loss, theft, or misuse.

## Recommendations

12. The Board and Town officials should develop and establish written policies and procedures for cash receipts that clearly assigns responsibilities and provides oversight for the collecting, recording, and depositing of cash receipts.

<sup>4</sup> Users may purchase a "one-time" (i.e., one visit) or an annual permit anytime during the year for use of the Recycling Center.

<sup>5</sup> A book of 10 coupons may be bought for \$30 in lieu of a \$4 per bag fee.

13. Town officials should ensure that adequate records are maintained for the programs at the Recreation Center, including verification of participant information, and detailed records of amounts paid, the date paid, and all other pertinent information.
14. Town officials should establish controls over the issuance of all annual permits and coupons at the Recycling Center. The Recycling Center Coordinator should maintain an accurate inventory of all tickets ordered, issued, and sold. Someone independent of the transfer station cash receipts process should periodically review the permit and coupon inventory records and inventory on-hand, and reconcile the permits and coupons sold to the amount of receipts. Any discrepancies should be promptly identified and resolved.

## Information Technology

The Town relies on its IT system for accessing the Internet, communicating by e-mail, storing data, maintaining financial records, and reporting to State and Federal agencies. Therefore, the Town's IT system and the data it holds are valuable resources. If the IT system fails, the results could range from inconvenient to catastrophic. Even small disruptions in IT systems can require extensive effort to evaluate and repair. Town officials are responsible for developing written policies and procedures to effectively safeguard IT resources. Accordingly, Town officials are responsible for establishing internal controls over the IT system and data to protect these assets against the risk of loss, misuse, or improper disclosure of sensitive data.

It is essential to control the processing of wire transfers to help prevent unauthorized transfers from occurring. In addition, IT access by authorized users must be controlled and monitored. Policies should address controlling physical and administrative access to the Town's IT system to reduce the risk of misuse, improper alteration, or loss of computerized data, and the Town should have a formal disaster recovery plan to provide guidance on the recovery of data in the event of a disaster.

The Town's internal controls over its IT system need to be strengthened. The Town's financial software administrator is an individual who also performs financial duties. Having the same person perform both functions is a serious control weakness. Also, IT System Administration duties are performed by an outside consultant without a contract defining the exact services to be provided. In addition, the Town does not monitor use of the computer system by its employees. The Board did not establish any formal procedures related to approving, initiating, documenting, reconciling, or monitoring wire transfers. Town officials also do not document or monitor user access to the computer system. Officials have not established a disaster recovery plan or a breach notification policy. As a result of these weaknesses, the Town's IT system and electronic data are at increased risk of loss, misuse, and manipulation.

### System Administration

To provide for a proper segregation of duties and internal controls, a financial software system must restrict users' access to only the computer functions that are consistent with their job responsibilities, and it must prevent users from being involved in multiple aspects of financial transactions. In addition, because a user with administrative rights can add new users, change users' passwords and rights, and control and use all aspects of the software, they should not be involved in financial functions.

The bookkeeper is the system administrator for the Town's computerized financial system. As the system administrator, the bookkeeper has unrestricted access to the financial system and the ability to assign user privileges. With administrator rights, she can access all financial operations and has the ability to change financial data and then conceal the transaction. Without properly segregating the duties of system administration from the financial operations, there is an increased risk that unauthorized modification to data may occur and go undetected.

### **Computer Consultant**

The Town uses a vendor for some IT services. Service level agreements (SLA) are written contracts between a provider of a service and the customer of the service and are typically entered into with third-party IT vendors as a means of capturing service needs and expectations. An SLA should establish measureable targets of performance so a common understanding of the nature and level of service required can be achieved.

The Town does not have a written contract defining roles and responsibilities for its computer consultant. The consultant performs almost all computer duties required of an IT Department. The Board and Town officials have not taken any action to assess and address the risks associated with outsourcing IT services to the consultant. During 2010, the Town paid the vendor approximately \$48,800 for various IT services.

The Town's failure to enter into a comprehensive SLA with its IT vendor contributed to a lack of accountability for who (the Town or IT vendor) has responsibility for various aspects of the Town's IT environment. Furthermore, without an SLA, important performance metrics (e.g., timeliness) for certain critical tasks are not established, including a lack of service level objectives, performance indicators, nonperformance impact, security procedures, audit procedures, reporting, review/update procedures, and a service approval process. As a result, the Town's data and computer resources are at greater risk for unauthorized access, misuse, or abuse.

### **Monitoring Computer Use**

A good system of IT internal controls starts with policies to define appropriate computer user behavior and administrative regulations to implement the policy. Monitoring computer use involves the regular collection, review, and analysis of events for indications of inappropriate or unusual activity, and the appropriate investigation and reporting of such activity. Audit and monitoring technologies include network and host-based intrusion detection systems (IDS), audit logging, security event correlation tools, and computer forensics.

The Town does not have a policy or procedures for monitoring user access to the Internet. After finding inappropriate social network use in late 2010, the Supervisor had the IT Consultant check staff computer usage. However, the Town does not have procedures for regular collection, review, and analysis of internet access for indications of inappropriate or unusual activity, and the appropriate investigation and reporting of such activity.

The failure to document and monitor user access for indications of inappropriate or unusual activity, and the investigation and reporting of such activity to management, increases the risk that improper usage may take place, or that access may be gained to critical Town records. Such unauthorized access could result in the manipulation, destruction, or theft of valuable information.

## **Wire Transfers**

It is essential to control the processing of wire transfers to help prevent unauthorized transfers of Town funds from occurring. Appropriate controls over wire transfers include management authorization of a transfer before the transaction is initiated, supported by documentation itemizing the purpose, source, destination and amount of the transfer to be made. Prior to transferring any funds, it is important for the bank to confirm each transfer request with a Town official other than the person making the request. By routinely reviewing and reconciling wire transfer activity, management has the opportunity to detect unauthorized wire transfers.

The Town does not have formal procedures for approving, initiating, documenting, reconciling, or monitoring wire transfers. The bookkeeper handles most on-line banking transactions and receives bank callbacks/verifications upon completion. Although the Supervisor informed us she generally reviews the transfer once completed, she does not receive a callback or e-mail to notify her that transactions have occurred. The bookkeeper is authorized to perform all wire transfer transactions while the payroll Clerk can make transfers for Federal and NYS taxes and NYS Retirement contributions.

Although the Board did not establish any formal procedures related to approving, initiating, documenting, reconciling, or monitoring wire transfers, there are some controls in place. For example, Town on-line banking transactions are limited to Town accounts, and to five on-line transactions during a month from the money market accounts. Also, there are limits on dollar amounts of wire transfers to the IRS and NYS for payroll related tax and retirement payments.

Because the bookkeeper has access to all activities and is administrator of the account, and the bank does not send confirmations to someone

other than the bookkeeper, we reviewed 25 bank transfers totaling \$1,234,067 that occurred during the month of November 2010.<sup>6</sup> All of the transfers we reviewed were appropriate and properly recorded. However, without written authorization, bank notification, and a documented review of transfers, the Board does not have adequate assurance that all transfers being made are appropriate.

## **User Access**

Access to specific components of an IT system must be restricted to those employees who need that access to perform their jobs. It is important for user accounts to be established and maintained so that access rights are matched to job responsibilities. Any needed changes to user accounts must be authorized and approved, in writing, by an appropriate official. It is also important for user accounts to be deactivated as soon as employees leave Town service. Access rights must be reviewed periodically to help ensure that necessary changes are made and that proper restrictions are maintained.

There are no authorization forms in use and the Town has no formal protocol to add, delete, or modify access rights to the computer system. Department heads decide whether to provide individual access to the system. The failure to document and monitor user account access rights increases the risk that improper access may be gained to critical Town records. Such unauthorized access could result in the manipulation, destruction, or theft of valuable information.

## **Disaster Recovery Plan**

A disaster recovery plan is intended to identify and describe how the Town plans to deal with potential disasters including any sudden, catastrophic event (e.g., fire, computer virus, power outage, or inadvertent employee action) that compromises the availability or integrity of the IT system and data. It is important for a disaster recovery plan to detail the precautions to be taken to minimize the effects of a disaster and enable the Town to either maintain or quickly resume mission-critical functions. The plan needs to have a significant focus on disaster prevention and be distributed to all responsible parties, periodically tested, and updated as needed.

Town officials have not developed a formal disaster recovery plan. The lack of a plan could lead to loss of important financial data along with a serious interruption to Town operations, such as not being able to process payments to vendors or employees. Consequently, in the event of a disaster, Town personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures.

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<sup>6</sup> Of the 25 transfers, 21 were deposited in other Town accounts within one day of issuance and four were payroll-related transfers.

## **Breach Notification Policy**

An individual's private and/or financial information, along with confidential business information, could be severely impacted if security is breached or data is improperly disclosed. NYS Technology Law Section 208 requires cities, counties, towns, and other local agencies to establish an information breach notification policy. Such a policy should detail how the Town would notify NYS residents whose private information was, or is reasonably believed to have been, acquired by a person without a valid authorization. It is important for the disclosure to be made in the most expedient time possible and without unreasonable delay, consistent with the legitimate needs of law enforcement or any measures necessary to determine the scope of the breach and restore the reasonable integrity of the data system.

The Town does not have an information breach notification policy. Without an information breach notification policy, in the event that private information is compromised, Town officials and employees may not be prepared to notify affected individuals.

## **Financial Data Backups**

The Town's electronic financial data should be backed up (duplicate copies made) on a routine basis and the copies should be stored in a secure offsite location. Periodically, Town personnel should verify the integrity of the copied data and test the effectiveness of the restoration process by restoring data from the backups. Financial data backups should also be encrypted to provide additional security.

The Town's financial data is backed up daily to tapes. The tapes, however, are not stored at a secure offsite location, but are stored near the financial software server. Town personnel do not periodically restore/test the data from these backup tapes. In addition, the financial data is not encrypted when backed up.

In the event that a fire or other disaster were to occur, both the financial server and backups would likely be destroyed or damaged resulting in a loss of essential financial data that may not be recoverable. In addition, since Town officials do not periodically restore/test the backups, they have no assurance about the effectiveness of the backup process. Moreover, the lack of encryption of the backups increases the risk that sensitive Town data could be improperly accessed.

## **Recommendations**

15. The Board should assign the responsibilities for the administration of the financial IT system to someone not involved in day-to-day financial operations. Preferably, the duties of the financial system administrator should be assigned to someone outside of the Business Office.
16. The Board should enter into a service level agreement with its IT vendor that clearly describes the scope of the work, service level

objectives, performance indicators, non-performance impact, security procedures, audit procedures, reporting, review/update procedures, and the service approval process.

17. The Town should monitor use of its computer systems.
18. Town officials should formalize the wire transfer process, ensuring that written authorizations, bank confirmations, and timely reviews are routinely performed.
19. Town officials should require that any changes to user accounts (additions, deletions, modifications) be authorized and approved in writing by a designated official. Additionally, Town officials should ensure that user accounts are deactivated as soon as employees leave Town service.
20. Town officials should develop and implement a formal disaster recovery plan, identifying potential risks and detailing the responses to be taken. Town officials should distribute the plan to all responsible parties, periodically test the plan, and update the plan as needed.
21. The Town should develop and adopt an information breach notification policy.
22. Town officials should ensure that financial data backups are stored at a secure offsite location. They should verify the integrity of the copied financial data by periodically restoring data from the backups.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



# Town of New Paltz, New York

Susan Zimet, Town Supervisor

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State of New York  
Office of the Comptroller  
33 Airport Center Drive, suite 103  
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September 17, 2012

It is with much disappointment that the Town acknowledges the findings of this report. Since day one of taking office in January 2012, as the newly elected Supervisor, I have been working to remedy the problems identified and the newly elected clerk, Rosanna Mazzacari, has also taken steps to remediate issues addressed in this report as part of good management. Steps are being taken to address the remaining items referenced in this report, and more.

## **FINANCIAL CONDITION:**

The water and sewer situation is a serious issue that needs time to resolve. All water and sewer fund balances, rates, expenses and revenues are being reviewed. Because of the large amount of monies that need to be paid back and the burden it would place on the individual taxpayer, many things are being considered, including consolidation with the Village Water and Sewer.

In specific regards to Sewer 6, that system has been a problem since it was built. The system should never have been approved but unfortunately it was and we are left to deal with the difficulties it presents. We have recently hired our Town Engineer to recommend an alternative system to alleviate the high cost of labor that services the plant.

The Town Engineer and I met with the DEC Regional office and presented the plans. The DEC would like for the plant to tie into the Village of New Paltz sewer system and close this plant down.

Unfortunately, Village law requires that the area be annexed into the Village to become a part of the system. That is not feasible due to the location way outside the Village boundaries. In conversation with the DEC, I explained the problem with the need to solve the financial burden of this plant to the users as well as the remaining community that is carrying the burden to operate this plant.

The DEC understands the situation and is going to convene a meeting with the Village, Town, Town

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Engineer and representation from the Comptroller's office to work together to figure out the solution to this long overdue and serious problem. On all the above we are in conversation with our Bond Counsel as to how we will deal with the financial obligations to solve these problems. We will provide a copy of our plan when finalized and all the recommendations of the Comptroller will be incorporated.

**FISCAL OVERSIGHT:** All items in this category have been done since the beginning of this fiscal year, prior to receipt of this report. Every expenditure has to be approved by the Supervisor. At the Organizational meeting in January, the Town Board passed a resolution that this policy must be followed.

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#### **Accounting records-monthly reports-**

Since taking office in January, the Supervisor requests and receives monthly reports, including revenue and expense reports, from all department heads except Water and Sewer. We are currently restructuring our Water and Sewer department, and will require monthly reports to be filed by the new department manager. The Supervisor distributes them to the board members and these reports are discussed at the monthly Workshop meeting.

#### **Annual Audit**

We are in the process of retaining the services of an outside auditor for the close of the 2012 fiscal year. Our plan is to have the 2012 books reviewed before the end of the year so any problems are identified we can correct them prior to closing the year out. This auditor will prepare for the Annual Financial Report so that it may be filed in a timely manner. The audit will give the Board the opportunity to evaluate fiscal practices and to maintain accurate accountability for Town assets, and assess performance of fiscal objectives.

#### **Annual Financial Report**

The newly elected Town Board hired an independent auditor to prepare the 2011 Annual Report due to our concerns about the financial status of the Town under the past Administration. We fully expected to have the 2011 annual report submitted on time to the State. Unfortunately due to extraordinary problems the Town had, in addition to the change over to a new accounting system, the outside auditor was not able to reconcile the books and asked for us to apply for an extension. Unable to still reconcile the books, we were asked to apply for another extension. We were informed by the State that another extension was not available and to file as soon as possible. It

took until August for the outside auditor to be able to confidently file the report. In order to assure a timely filing for next year, we are going to bring the auditor back in November to assure our books are in order. We have every reason to believe we will be able to have the 2012 AUD filed on time.

#### **Clerk's Minutes**

All meetings have detailed minutes taken since January 2012. The drafts are completed quickly, and can be approved by the Board in a timely manner. They are then filed in bound books in the Clerk's office. Past minutes have been printed and placed in bound books as part of the permanent record. To date, 2001-2011 is completed, and 2012 is up to date.

#### **CASH RECEIPTS:**

##### **Recreation Center**

The Town Board changed its policy on how we provide programming at the Community Center. We no longer accept payment for programs and only work on a rental basis whereby there is a rental fee and contract and the instructors deal with the attendance and collection of fees.

##### **Recycling Operations**

Cash is no longer accepted and policy has been established to assure proper record and bookkeeping.

#### **INFORMATION TECHNOLOGY**

The areas of weakness identified in the Comptrollers report are of great concern and we take the recommendations seriously. The Town will implement the changes recommended that have no financial implications immediately. The other recommendations that have financial implications are being reviewed so we can implement as soon as possible the most cost efficient and secure program.

Thank you for your thorough review and help to assure the integrity of the Town of New Paltz's financial well being.

Sincerely,

  
**Susan Zimet**  
Supervisor of the Town of New Paltz

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, Supervisor's records and reports, cash receipts and disbursements, purchasing, payroll and personal services, Town Clerk's office, Tax Collector, Justice Court, Building Department, and IT.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as Town policies and procedures manuals, the Town Clerk's notes for Town Board Meeting minutes, and financial records and reports. 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 objectives and scope by selecting for audit those areas most at risk. We selected Fiscal Oversight, Water and Sewer District Financial Condition, Cash Receipts and Disbursements, and IT for further audit testing.

To assess the Town Board's oversight of financial operations and the Supervisor's maintenance of financial records, we examined available records and reports for the stated scope period. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the Town Clerk's meeting notes and packets for Town Board actions including Board resolutions pertaining to the transfer of Town moneys and for financial records submitted and/or reviewed.
- On a sample basis, we reviewed the available accounting records, including bank reconciliations, cash receipts and disbursements records, and annual budgets. We assessed the reliability and timeliness of financial information provided to the Board and the Board's procedures to provide oversight of Town finances.
- We reviewed available balance sheets, trial balances, and operating statements.
- We reviewed available documentation on the establishment of water and sewer rates.
- We interviewed Town officials to determine if policies and procedures had been adopted for the receipt and disbursement of Town funds, if the accounting functions were segregated, and if the Board had audited the books and records of the Supervisor, Town Clerk and Justice.
- We reviewed daily cash receipts to determine if adequate procedures and controls were in place.

- We reviewed a sample of deposits to determine if they were made timely and intact.

When testing IT, we performed the following procedures:

- We interviewed Town officials and employees, and an employee from the IT company that services the Town's computers, to gain an understanding of the Town's financial recordkeeping systems and specific IT controls.
- We interviewed key officials to determine if they have adequate backup procedures, a security plan, a formal disaster recovery plan, an intrusion detection system and a breach notification policy.
- We physically observed the servers.
- We reviewed a sample of internal and external wire transfers that occurred during our audit period to determine if these transfers were authorized, documented, and for legitimate Town purchases. For internal transfers, we examined whether the moneys were being transferred from one Town account to another Town account. We selected one month judgmentally from the audit period and tested all transfers for the selected month. We selected the month based on the number and amount of transfers.

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.

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