



# Town of Peru

## Internal Controls Over Town Operations

### Report of Examination

Period Covered:

January 1, 2005 — November 5, 2006

2007M-212



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**

November 2007

Dear Local 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 their compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished 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 Peru, entitled Internal Controls Over Town Operations. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials 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 Peru is governed by the Town Board (Board) which comprises five elected members. The Board is responsible for the general management and oversight of the Town's financial and operational affairs including setting policies, adopting and monitoring the budget, and approving claims to disburse Town funds. The Board adopted an annual budget of approximately \$3.2 million for the 2006 fiscal year.

The Town Supervisor (Supervisor) serves as both the chief financial officer and the chief executive officer for the Town, and is responsible for its financial operations including maintaining the accounting records for all receipts, disbursements, and account balances; reconciling the accounting records to the bank statements; filing the annual reports with the Office of the State Comptroller; and providing the Board with timely and accurate financial information. The Supervisor appoints a confidential secretary who primarily functions as a bookkeeper to maintain the accounting records.

The Town experienced significant turnover in key administrative positions during our audit period. Since January 2006<sup>1</sup> the Town successively employed four bookkeepers, and two account clerks resigned during the same period.

### **Scope and Objective**

The objective of our audit was to examine financial records and reports of the Town of Peru for the period January 1, 2005 to November 5, 2006. Our audit addressed the following questions:

- Had the Supervisor developed and implemented management procedures that allow the Board to adequately monitor the Town's financial activity?
- Did the Board fulfill its oversight responsibilities relating to internal controls over claims processing?
- Were there adequate internal controls over the Code Enforcement Officer's cash receipts?

### **Audit Results**

The Supervisor did not maintain adequate management procedures for the Town's financial operations and employed bookkeepers having little, if any, experience in governmental accounting. The

<sup>1</sup> Until completion of this audit in August 2007

Supervisor and administrative staff did not maintain current and accurate records and did not provide any monthly financial reports to the Board during 2006. Bank reconciliations were not completed and the Town's general ledger cash accounts were overstated by \$441,643 as of December 31, 2006. Both the current and prior Supervisors failed to maintain adequate documentation for moneys received, making it unclear whether all cash receipts were accurately identified by source and properly recorded. Acceptable accounting records were not maintained for the Town's capital projects and capital reserve transactions. Overall, the Board did not fulfill its financial oversight duties by performing an annual audit of the books and records of all officers and employees who received or disbursed cash. Because of the lack of adequate controls, accountability, and financial oversight by Town officials, the Town Board is at risk of making misinformed financial decisions that could result in serious fiscal problems and the waste of taxpayer moneys.

The Town's internal controls over the claims processing system were also inadequate. Claims processing duties were poorly segregated, the Board did not properly audit claims, and some warrants of audited claims were missing or inaccurate. The Town had insufficient documentation available for our review to support payment of legal fees totaling \$37,704. As a result, there is an increased risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

Finally, the Board had not established written policies and procedures for the collection, recording, reporting, and remittance of fees for planning, zoning, and building permits. The Code Enforcement Officer (CEO) employed during 2005 did not maintain complete and accurate records, and the Town had no method of verifying the receipts he collected against the reports he submitted to the Town Clerk (Clerk). Without written policies and procedures for the management of code enforcement moneys, the Town is at risk of revenues being lost or stolen without detection.

### **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 have initiated, or indicated they planned to initiate, corrective action.

# Introduction

## Background

The Town of Peru (Town) is located in Clinton County in northern New York and has approximately 6,900 residents. The Town is governed by the Town Board (Board) which comprises five elected members. The Board is responsible for the general management and oversight of the Town's financial and operational affairs including setting policies, adopting and monitoring the budget, and auditing the books and records of Town employees and officials. The Board adopted an annual budget of approximately \$3.2 million for the 2006 fiscal year.

The Town Supervisor (Supervisor) serves as both the chief financial officer and chief executive officer for the Town and is responsible for its financial operations, including maintaining accounting records for all receipts, disbursements, and account balances; reconciling the accounting records to the bank statements; filing the annual reports with the Office of the State Comptroller; and providing the Board with timely and accurate financial information. The Supervisor appoints a confidential secretary whose primary duties are to maintain the accounting records.

The Town experienced significant turnover in key administrative positions during our audit period. Since January 2006<sup>2</sup> the Town successively employed four bookkeepers, and two account clerks resigned during the same period.

During August 2006 the Board requested an audit of the Town's financial records and expressed concern about the completeness and accuracy of the accounting records. Specifically, Board members were concerned that staff appointed by the Supervisor to maintain the Town's accounting records lacked necessary experience in governmental accounting. Following an on-site risk assessment of the Town and based on continued concerns expressed by Town officials, we conducted an audit.

## Objective

The objective of our audit was to examine financial records and reports of the Town of Peru. Our audit addressed the following questions:

- Had the Supervisor developed and implemented management procedures that allow the Board to adequately monitor the Town's financial activity?

<sup>2</sup> Until completion of this audit in August 2007

- Did the Board fulfill its oversight responsibilities relating to internal controls over claims processing?
- Were there adequate internal controls over the Code Enforcement Officer's cash receipts?

**Scope and  
Methodology**

We examined financial records and reports of the Town of Peru for the period January 1, 2005 to November 5, 2006.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit 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 have initiated, or indicated they planned to initiate, corrective action.

The Town Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Town Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing your plan of action, you may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Town Board to make this plan available for public review in the Town Clerk's office.



# Financial Operations

Effective procedures for a town's management of its financial operations enable local government officials to monitor financial activity and obtain information for making management decisions, preparing realistic budgets, filing required reports, and maintaining a healthy and stable financial position for the local government they serve. In the Town of Peru, the Supervisor was primarily responsible for establishing, monitoring, and managing such procedures. However, the Town's financial operations were deficient because the Supervisor failed to maintain complete and accurate financial records. The situation was further aggravated by the employment of bookkeepers who lacked sufficient knowledge to maintain accounting records, and the Supervisor's failure to oversee their performance. The lack of complete and accurate accounting records significantly exposes Town assets to the risk of fraud and abuse without detection by Town officials.

## Accounting Records

Financial information must be complete, accurate, and current for managing Town operations. As chief financial officer, the Supervisor was responsible for ensuring that the basic accounting functions were performed and that adequate accounting records — journals, ledgers, and other documents that provide a record of all financial transactions — were available to produce periodic reports for the Board's use in monitoring the Town's financial operations. The Supervisor was ultimately responsible for ensuring that reliable records and reports were maintained, whether by himself or by an appointed bookkeeper.

Two months into his term, the Supervisor appointed a confidential secretary (bookkeeper) who lacked experience in governmental accounting and resigned after two months of employment. A second bookkeeper appointed during the time of our examination also resigned after two months, acknowledging that she lacked any relevant experience in maintaining accounting records. As a result of the turnover and lack of effective oversight, the Town's accounting records were unreliable due to incompleteness and inaccuracies. Without a reliable basis for Town officials to monitor financial activity and make informed financial decisions, the Town is at risk of inefficient operations that could create serious fiscal problems and jeopardize its financial health.

Bank Reconciliations — Monthly reconciliations between bank statements and accounting records should be performed to verify



that the Town's cash balances in the accounting records agree with corresponding bank statements. This helps ensure that all cash is properly accounted for. The Supervisor and his staff failed to perform monthly reconciliations for the entire year of 2006. We reviewed the Town's general ledger cash balances as of December 31, 2006, comparing them to the corresponding bank statements for the Town's 23 bank accounts at the same date. General ledger cash balances totaled \$1,295,329, while the Town had only \$853,686 in the bank,<sup>3</sup> leaving the Town's total reported cash balance overstated by \$441,643 (52 percent). This difference was caused by the failure to maintain complete and accurate records of cash disbursements, and errors in the use of the accounting system such as inappropriate deletion of cash disbursement entries. A 52 percent cash overstatement makes it difficult if not impossible for the governing board to monitor the town's financial health or make informed financial decisions.

Cash Receipts — Cash receipts collected by the Town should be posted to the accounting records by the bookkeeper each month. There should be supporting documentation of each receipt's revenue source. General Municipal Law requires the Supervisor to issue duplicate cash receipt forms to confirm moneys received if there is no other evidence satisfactory for audit. The Supervisor must also maintain a separate subsidiary account for each revenue category.

Both the current and prior Supervisors failed to maintain sufficient documentation for moneys received during the period January 1, 2005 through November 5, 2006, and neither issued duplicate cash receipts during that time. Without proper cash receipt records, the bookkeepers could not readily identify the source of all moneys deposited into the Town bank accounts or accurately record them in the accounting records. Because of the lack of documentation, we were unable to determine with certainty whether all cash receipts during our audit period had been properly deposited to Town bank accounts or the extent to which inaccurate records may have contributed to the Town's overstatement of its cash balance. The inadequacy of the procedures in place creates an increased risk of revenues being lost or stolen without being detected or corrected in a timely manner.

Cash Disbursements — Cash disbursements should be properly initiated by Town employees or officials, supported by detailed information, and approved by the Board. The Supervisor is responsible for ensuring that all such disbursements of Town funds are recorded accurately and expeditiously in the accounting records.

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<sup>3</sup>The bank balance excludes four bank accounts totaling \$54,788 for capital projects (active and inactive) that were also not accounted for in the Town's records.

In cash disbursement records for the period January 2006 through August 2006, gaps in check sequences indicated that 52 checks were missing. The bookkeepers had properly voided and retained 30 of these checks on file. Of the remaining 22 checks, documentation indicated that nine had been destroyed, seven had not cleared the bank and could not be accounted for, and six — totaling about \$25,340 — were deleted from the accounting records after they cleared the bank. Because the bookkeepers had not been adequately trained on the Town's automated accounting system, they did not know how to correct accounting errors by posting journal entries and instead deleted checks from the software. The insufficient procedures for recording cash disbursements, combined with staff's lack of training in the Town's accounting software, places the Town's assets at risk of misuse and limits the ability of the Board to provide adequate oversight.

Capital Projects and Reserves — A capital project is used to account for the acquisition or construction of capital facilities and purchases of equipment. Separate accounting records are required for each capital project so the Town can capture construction or acquisition costs for the capital asset records and ensure that debt proceeds are used for their intended purpose.

The Supervisor could not provide us with accounting records for capital projects underway during 2005 and did not maintain capital project accounting records during 2006. We also noted that the Board had not formally budgeted for a highway garage construction project, begun in 2005, or passed the required resolutions authorizing the expenditure of \$250,000 in capital reserve funds to build the garage. Construction costs were accounted for in the general fund instead of separately. In addition, in November 2005 the Town purchased a water/sewer department truck using \$18,000 from a capital reserve fund. We found no indication that the Board had passed the required resolution authorizing expenditures of capital reserve fund moneys to purchase the truck.

The Town had four other capital projects in process — Peru sewer lines, Valcour sewer grinder pumps, water district improvements, and new water lines — funded by debt proceeds that had been properly allocated for those projects. However, the Town used portions of these debt proceeds to pay for items other than the intended project purposes, as follows:

- In October 2005, truck repairs totaling \$2,842 were paid from the water district improvement project.

- In April 2006, the Town used Peru sewer line project moneys to purchase a new \$24,716 water/sewer truck to replace a vehicle destroyed in an accident.<sup>4</sup>
- In April 2006, the Town paid \$3,088 for engineering work on the water line project with funds from the separate water district improvement project.
- In November 2006, the Town used \$2,280 in proceeds from a bond anticipation note issued for the Valcour sewer grinder pumps project to pay an interest payment due on an unrelated sewer bond.

The lack of proper capital project and reserve fund accounting records resulted in the inappropriate use of debt proceeds and the unauthorized use of reserve moneys. Because of the absence of reliable records, the Town cannot capture actual capital construction costs. As a result, the Town incurs the risk of projects being overspent without Board knowledge, and of misappropriating funds without detection by local officials.

Monthly Reports — The Supervisor is required to submit a detailed statement of all moneys received and disbursed during the month to the Board so that all Board members have sufficient information to make informed financial decisions. These reports should include reconciled cash balances for each fund and detailed year-to-date budget and actual comparisons. Such reports can be a valuable tool for the Board’s monitoring of the Town’s financial condition and budgetary status throughout the year, and in preparing the ensuing year’s budget.

The Supervisor had not provided any detailed financial information to the Board during 2006 until November, largely because of the failure to maintain adequate accounting records. Because of the lack of timely financial reports, the Board could not monitor financial operations, make informed decisions throughout the year, or adopt a realistic 2007 budget. As a result, the Town is at risk of overspending its budget and incurring serious fiscal problems. Further, the Board’s lack of oversight increases the risk that errors, irregularities, or fraud could occur and not be detected and corrected in a timely manner.

## Annual Board Audit

A town’s successful operation depends largely on its governing board, which directs the town’s activities. Board members, individually and collectively, are the Town’s fiscal stewards responsible both for

<sup>4</sup> The net cost to the capital project totaled \$11,466 after insurance proceeds were subsequently credited to the sewer line project account.

setting the course of financial activities and for seeing that it is kept. Working with other Town officials and department heads, the Board can help ensure that critical oversight is provided and that individual responsibilities are established and met. Internal controls help safeguard the Town's assets and ensure the prudent and economical use of its moneys and, therefore, should include the auditing of Town officials who receive and disburse cash.

Town Law requires that on or before the 20th day of January, each Town officer and employee who received or disbursed any moneys in the previous year should account with the Board for such moneys. The purposes of this Board audit are to provide assurance that public moneys are handled properly (i.e., deposited in a timely manner, accurately recorded, and accounted for), to identify conditions that need improvement, and to provide oversight of the Town's financial operations. An annual audit allows the Board to assess financial operations and to review compliance with Board policies such as those concerning investment and procurement.

There was no indication that the Board had examined the books and records of the Supervisor, the Clerk, the Code Enforcement Officer, or any other Town officials or employees who received or disbursed moneys during 2005. Without such audit by the Board, the Town is at risk of mishandling public moneys and failing to detect and correct errors, irregularities, or fraudulent activity in a timely manner.

## **Recommendations**

1. The Supervisor should ensure that the Town's accounting records are accurate and maintained in a timely manner, with detailed supporting documentation for cash receipts and disbursements, and post all receipts and disbursements to the records. Each month the bookkeeper should reconcile bank statements to cash balances in the accounting records.
2. Local officials should establish minimum qualifications for individuals appointed as bookkeeper and ensure that they receive sufficient training in the accounting software.
3. The Board should not use debt proceeds issued to finance specific capital projects for purposes other than the stated use.
4. Town officials should expend capital reserve funds only upon the Board's authorization and in accordance with all other statutory requirements.
5. The Supervisor should provide the Board with a detailed monthly report of all moneys he received and disbursed during the month,

including reconciled cash balances for each fund and year-to-date budget and actual comparisons.

6. The Board should annually examine the books and records of all Town officials and employees who receive or disburse cash.

## Claims Processing

Policies and procedures for claims processing are a main component of the Town's internal controls. The Board must ensure that all claims are legitimate charges against the Town before they are paid. Town Law requires the Board to audit all claims against the Town. The Clerk should then prepare and sign a warrant of the audited and approved claims, which are paid by the Supervisor. To properly audit each claim, the Board should conduct a thorough review to determine that proposed payments are proper and valid charges against the Town, and that they were incurred by authorized officials.

The Town's internal controls over the claims processing system were inadequate, particularly in regard to the segregation of duties, with one person essentially controlling the entire process. The bookkeeper prepared both the warrants and the claims (including claims payable to herself) and the Clerk did not perform duties involving the initial processing of claims as required by Town Law in order to provide appropriate segregation of duties. The Board did not properly audit claims, and warrants of audited claims were missing or inaccurate. Additionally, the Town had insufficient documentation to support the payment of certain claims for legal fees.

### Segregation of Duties

Effective segregation of duties helps to ensure that no one individual controls all or most aspects of a transaction. The proper division of responsibility requires independent oversight of the work performed by employees in financial operations. Accordingly, Town Law requires towns to process claims as follows:

- The Clerk numbers each claim consecutively, beginning with 1, each year.
- The Board audits all Town claims and approves them for payment by resolution.
- The Clerk prepares and signs (certifies) a warrant of the audited and approved claims directing the Supervisor to pay them.
- The Clerk files all audited claims in numerical order in her office.

However, both the claims and the warrant were prepared by the bookkeeper instead of the Clerk. The bookkeeper also prepared the checks, filed the claims in her office, posted the accounting records,

and reconciled the bank accounts. As a result, the incompatible duties of disbursement, accounting, and check custody were not properly segregated. Additionally, the prior year's (2005) claims were maintained in an unlocked file cabinet in an unsecured stairwell accessible to the general public and outside the view of Town officials. Because of the insufficient segregation of duties and the Clerk's failure to perform her statutory responsibilities, combined with inadequate safeguards of claims records, there is an increased risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

## **Claims Audit**

As an integral part of the Town's internal controls, the claims audit process includes procedures to ensure that the Town pays only those vendor claims that are legal and proper. Claim vouchers should be properly itemized and contain sufficient documentation for the Board to determine the nature of the claim, to verify the calculation of all associated costs, and to determine whether the claim complies with statutory requirements and Town policies. In addition, the Board should be able to determine that the Town actually received the goods or services described in the claims, from detailed receipts with written statements from Town officials to that effect. Lastly, the Board should confirm that each claim is in its proper form and does not include any charges already paid.

We reviewed 50 claims totaling \$96,188 (25 from January through December 2005 and 25 from January to November 5, 2006) and found that nine of these claims, totaling \$3,470, contained errors and irregularities indicating that the Board had not properly audited them. Each of these claims had one or more instances of information that did not match the warrant, i.e., names, payment amounts, appropriation codes, and/or check numbers. In one instance, a \$1,665.33 voucher for maintenance services was paid on May 25, 2006 even though the warrant indicated that the check was voided.

Ten claims lacked detailed invoices documenting items purchased, preventing the Board from properly auditing the claims to determine if they were for valid Town expenditures. Nineteen claims totaling \$28,726 lacked any signature indicating authorization by an appropriate Town official. We also examined 16 invoices for legal fees in 2006 totaling \$94,795; of those, there was insufficient documentation available for our review to support payments of \$37,704. In the absence of critical information such as supporting invoices and proof of department head approval, Board members could not perform an adequate audit of claims. By approving these vouchers without adequate documentation, the Board failed to complete a thorough audit which increased the risk of payment for goods or services that are not for appropriate Town purposes.



## **Payments on Warrants**

The automated accounting system used by the Town generated both the warrant and the related checks based on information the bookkeeper entered from the individual claims after their approval by the Board. The bookkeeper would then prepare the warrant and print the corresponding checks for the Supervisor to sign. Accordingly, an appropriate internal control is for the Supervisor to ensure that the printed checks agreed with the claims.

There was no independent review of the warrants, by the Supervisor or other designated individual, to verify that the bookkeeper had properly entered the claim information before the Supervisor signed the checks. We traced 20 check payments totaling \$48,966 to audited warrants to ensure that the payee and amount on the checks matched the warrant, and that the claims were properly audited and approved by the Board. The warrants for five claims totaling \$14,777 were missing from the Town records. Because Town officials were unable to produce the warrants during our examination and the Board minutes were insufficient, we could not determine whether the claims had been approved and audited. Further, the payment amount on four checks totaling \$2,217 did not agree with the amounts listed on the warrants, and three warrants contained claims totaling \$7,738 that had not been audited and approved by the Board. The failure to perform an independent review of the warrants as a control procedure significantly increases the risk that errors and irregularities could occur and not be detected and corrected in a timely manner.

## **Recommendations**

7. The Board should ensure an adequate separation of duties in the processing of claims. Such separation of duties should ensure that the Town Clerk performs all duties that are the statutory responsibility of her position.
8. The Board should ensure that all claims are properly supported by detailed invoices, have been approved by the department head, and agree to the warrant prior to approving them for payment.
9. Prior to making payment, the Supervisor should compare checks to the approved warrant and audited claims to verify that all payments have been Board-approved and that the amounts are accurate.

## Code Enforcement Officer's Cash Receipts

Town officials act as public servants and are responsible for carrying out the functions of their office efficiently and effectively. Effective internal controls should include policies, practices, and procedures to provide reasonable assurance to taxpayers that the Town is properly accounting for its resources. Regular oversight and monitoring of such internal controls by management help to ensure they are operating effectively and as intended.

The Code Enforcement Officer (CEO) approves planning, zoning, and building permits and collects related fees. The CEO's responsibilities include receiving, recording, remitting, and reporting all collections accurately and in a timely manner. The CEO turns these moneys over to the Town Clerk and issues a printed receipt which, retained in duplicate, provides additional supporting documentation of the transaction. The CEO also provides a monthly report of these receipts to the Clerk. The Clerk deposits the moneys in the Town Clerk account, from which they are remitted to the Supervisor and included in the Clerk's monthly report to the Supervisor. (The recorded collections averaged about \$3,200 per month.) The Supervisor then deposits the cash receipts to the general fund as Town revenue.

The Board had not established written policies and procedures for the collection, recording, reporting, and remittance of planning, zoning, and building permit fees. We compared the cash receipts collected during three months with the CEO's remittances to the Clerk<sup>5</sup> and found records that were inaccurate and incomplete. For example, of 48 cash receipts for approximately \$9,000, 33 totaling \$6,600 were not reflected in the CEO's monthly reports to the Clerk. Therefore, we expanded our testing to the entire 2005 calendar year and found that the CEO had collected water and sewer hookup fees and remitted them directly to the Supervisor instead of to the Clerk, which accounted for the discrepancy between the CEO's cash receipts and his reports to the Clerk. The lack of written policies and procedures for the management of cash receipts creates a weakness in the Code Enforcement Office's internal controls, and limits the Board's ability to provide effective oversight. In addition, both CEOs who served during our audit period retained the moneys they collected until month-end before remitting them to the Clerk, and cash receipts remitted to the Clerk were not reported in a timely manner. For example, a printed receipt for \$3,700

<sup>5</sup> The Town employed two Code Enforcement Officers during our audit period: one from January to September 2005, and the second from October 2005 to November 2006. Our initial testing was for the three months of May and September 2005 and September 2006.

was issued on May 12, 2005 and the moneys deposited to a Town account on June 7, but the transaction was not reported to the Clerk until August. The practice of holding cash receipts until month-end places the Town's assets at risk of being lost or stolen, and the failure to report remittances in a timely manner places the Town at risk of errors, irregularities, or fraud occurring and not being detected by local officials.

**Recommendation**

10. Local officials should establish written policies and procedures for the collection, recording, reporting, and remittance of moneys received by the Code Enforcement Office. Such policies and procedures should define the responsibilities of the Code Enforcement Officer, the Town Supervisor, and the Town Clerk.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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

# Town of Peru

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Councilmember

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Councilmember

Kathleen Flynn  
Town Clerk

Thomas J. Powers  
Councilmember

Keith R. Matott  
Councilmember

November 8, 2007

Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801

Re: Examination #2007M-212

Dear [REDACTED]

The Town of Peru Town Council would like to take this opportunity to thank you and your associates from the Office of the State Comptroller for conducting the Internal Control Examination and Exit Discussion with Town Board members covering the period of January 1, 2005 through November 5, 2006

The Town considers the findings and recommendations of the audit tools to guide town officials to effectively manage operations and meet expectations of the community. This letter shall be considered the official response to the audit and a foundation for the Corrective Action Plan.

## FINANCIAL OPERATIONS:

### A. Accounting Records:

#### 1. Bank Reconciliations:

Response: The Town Supervisor or appropriate staff under the guidance of the Supervisor will immediately start reconciling bank statements against accounting records monthly. Presently, the town accounting vendor is reconciling the bank statements.

#### 2. Cash Receipts:

Response: The Town Supervisor or appropriate staff under the guidance of the Supervisor will immediately begin issuing duplicate cash receipts. The Supervisor will develop and implement written procedure, approved by the Town Board, to follow when moneys are received and deposited into Town bank accounts by December 15, 2007.



3. Cash Disbursements:

Response: The Town Supervisor or appropriate staff under the guidance of the Supervisor will develop and implement written procedures, approved by the Town Board, to properly disburse funds by December 15, 2007.

4. Capital Projects:

Response: In previous years the Town kept accounting records for all capital projects. The Town Supervisor or appropriate staff under the guidance of the Supervisor will develop written procedures, approved by the Town Board, to properly account for capital projects by January 1, 2008.

5. Monthly Reports:

Response: The Town Supervisor will immediately begin providing the necessary detailed financial information to the Town Board to enable the Board to make informed financial decisions.

B. Annual Board Audit:

Response: The Town Board will develop and implement a written procedure to complete internal audits of *every* Town officer and employee who received or disbursed moneys in the previous year by December 15, 2007.

C. Financial Operations Recommendations:

1. The Supervisor should ensure that the Town's accounting records are accurate and maintained in a timely manner, with detailed supporting documentation for cash receipts and disbursements, and post all receipts and disbursements to the records. Each month the bookkeeper should reconcile bank statements to cash balances in the accounting records.

Response: The Town Supervisor or appropriate staff under the guidance of the Supervisor will immediately start reconciling bank statements against accounting records monthly. Presently, the town accounting vendor is reconciling the bank statements.

2. Local officials should establish minimum qualifications for individuals appointed as bookkeeper and ensure that they receive sufficient training in the accounting software.

Response: The Town Board will establish minimum qualifications for individuals appointed as bookkeeper, develop, and implement a written training program for the accounting software by January 30, 2008.

3. The Board should not use debt proceeds issued to finance specific capital projects for purposes other than the stated use.

Response: Immediately, only use debt proceeds for their stated use.

4. Town Officials should expend capital reserve funds only upon the Board's authorization and in accordance with all other statutory requirements.

Response: In previous years the Town Board authorized the expenditure of capital reserve funds. The Board will immediately reacquaint themselves with and follow the proper statutory requirements.

5. The Supervisor should provide the Board with a detailed monthly report of all moneys he received and disbursed during the month, including reconciled cash balances for each fund and year-to-date budget and actual comparisons.

Response: The Town Supervisor will immediately begin providing the necessary detailed financial information to the Town Board to enable the Board to make informed financial decisions.

6. The Board should annually examine the books and records of all Town officials and employees who receive or disburse cash.

Response: The Town Board will develop and implement a written procedure to complete internal audits of *every* Town officer and employee who received or disbursed moneys in the previous year by December 15, 2007.

#### **CLAIMS PROCESSING:**

##### **A. Segregation of Duties:**

Response: The Town Board and Town Clerk will develop a procedure to adequately separate the duties in processing of claims and additionally ensure the Town Clerk performs all the duties that are the statutory responsibility of the position by December 15, 2007.

##### **B. Claims Audit:**



Response: The Town Board is currently ensuring all claims are properly supported by detailed invoices, have been approved by the department head, and agree to the warrant prior to approving them for payment.

C. Payments on Warrants:

Response: The Town Supervisor will immediately begin to compare checks to the approved warrant and audited claims to verify that all payments have been Board approved and that the amounts are accurate. Currently, a Town Board member is completing this task.

D. Claims Processing Recommendations:

7. The Board should ensure an adequate separation of duties in the processing of claims. Such separation of duties should ensure that the Town Clerk performs all duties that are the statutory responsibility of her position.

Response: The Town Board and Town Clerk will develop a procedure to adequately separate the duties in processing of claims and additionally ensure the Town Clerk performs all the duties that are the statutory responsibility of the position by January 15, 2008.

8. The Board should ensure that all claims are properly supported by detailed invoices, have been approved by the department head, and agree to the warrant prior to approving them for payment.

Response: The Town Board is currently ensuring all claims are properly supported by detailed invoices, have been approved by the department head, and agree to the warrant prior to approving them for payment.

9. Prior to making payment, the Supervisor should compare checks to the approved warrant and audited claims to verify that all the payments have been Board-approved and that the amounts are accurate.

Response: The Town Supervisor will immediately begin to compare checks to the approved warrant and audited claims to verify that all payments have been Board approved and that the amounts are accurate. Currently, a Town Board member is completing this task.

**CODE ENFORCEMENT OFFICER'S CASH RECEIPTS:**

A. Policy:

Response: The Code Enforcement Officer Town Board will develop and implement written procedures for the collection, recording, and remittance of monies received by the Code Enforcement Office by December 15, 2007.

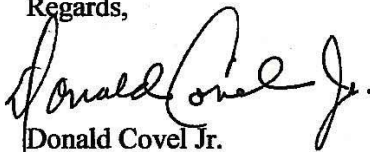
B. Code Enforcement Officer's Cash Recommendations:

10. Local officials should establish written policies and procedures for the collection, recording, reporting, and remittance of monies received by the Code Enforcement Office. Such policies and procedures should define the responsibilities of the Code Enforcement Officer, the Town Supervisor, and the Town Clerk.


Response: The Town Board will develop and implement written procedures for the collection, recording, and remittance of monies received by the Code Enforcement Office by December 15, 2007. Such procedures will include but are not limited to the following that are currently implemented:

- Fees to be determined at time of submission of application by Codes/Zoning Official per Fee Schedule.
- Collection of fees by Planning/Zoning secretary with hand receipt completed and given to applicant.
- Submission of collected fees monthly to Town Clerk.
- Monthly reconciliation of collected fees with Cash Receipt Report generated by IPS program.
- Collected fees to be in a locked cabinet outside of normal office hours.

Regards,

  
Donald Covell Jr.  
Supervisor

  
Peter Glushko  
Councilor

  
Cortland Forrence  
Councilor

KRM/bms

Thomas Powers  
Councilor

  
Keith R. Matott  
Councilor

## 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 and monitor financial activities. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk.

During the initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents such as Town policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial database and then analyzed it using computer-assisted techniques. 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 upon the reported objectives and scope by selecting for audit those areas most at risk. We selected for further testing the Supervisor's financial operations, claims processing, and the Code Enforcement Officer's cash receipts.

To accomplish the objectives of the audit, our procedures included the following:

- We interviewed Town officials responsible for financial oversight, maintaining accounting records, and processing claims to gain an understanding of the Town's policies and procedures.
- We reviewed the Supervisor's management of financial operations and, on a test basis, reviewed the accounting records including bank reconciliations, cash receipts, cash disbursements, and capital projects. We assessed the financial information provided to the Town Board and the Board's procedures to provide oversight of Town finances.
- We reviewed the Town's procedures for processing claims. On a test basis, we reviewed claims to determine if they were properly approved prior to payment, contained adequate documentation supporting the payment, and agreed with information listed on the warrants. We also traced cancelled checks to the approved warrants to ensure the payment information agreed.
- We interviewed Town officials to determine the policies and procedures for collecting fees related to code enforcement.
- We tested cash receipts collected by the Code Enforcement Office for the 2005 calendar year and during September 2006 to determine if confirmation receipts were issued and the collections properly accounted for and accurately reported to the Clerk.

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

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**AND SCHOOL ACCOUNTABILITY**

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

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