



Town of Peru

Fiscal Oversight

Report of Examination

Period Covered:

January 1, 2011 — February 29, 2012

2012M-104



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	4
FISCAL OVERSIGHT	5
Accounting Records	5
Interfund Advances	7
Bank Reconciliations	8
Monthly Reports	9
Capital Project Management	10
Annual Accounting	13
Recommendations	13
APPENDIX A Response From Local Officials	15
APPENDIX B Audit Methodology and Standards	18
APPENDIX C How to Obtain Additional Copies of the Report	20
APPENDIX D Local Regional Office Listing	21

State of New York Office of the State Comptroller

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 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 Fiscal Oversight. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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

Introduction

Background

The Town of Peru is located in Clinton County and has a population of approximately 7,000. The Town is governed by an elected five member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement, and custody of Town moneys, maintaining accounting records, and providing financial reports to the Board.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, public improvements, planning and zoning, recreation and cultural activities, water, sewer, and general governmental support. The Town's budgeted appropriations for the 2012 fiscal year are approximately \$3.86 million, funded primarily with real property taxes and assessments, and user charges. The Town had a combined total of nine active capital projects during our audit period. These capital projects included, but were not limited to, the construction, improvement, and/or reconstruction of the Peru water district facilities, the Peru sewer district facilities, and the Valcour sewer district facilities, and the development of the Little Ausable River Trail.

The Board failed to correct all of the deficiencies that were identified in our previous report of examination (2007M-212) that was issued in November 2007, which cited weaknesses with the maintenance of accounting records and reports and Board oversight. If the Board does not address the internal control weaknesses identified in this report, the Board is at significant risk of making misinformed financial decisions that could result in serious fiscal problems for the Town.

Objective

The objective of our audit was to review the Town's internal controls over financial operations. Our audit addressed the following related question:

- Did the Board adequately oversee the Town's financial operations?

Scope and Methodology

We examined the Town's financial operations for the period January 1, 2011 to February 29, 2012. We expanded our scope period to January 1, 2006 for our review of capital projects.

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 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.

Fiscal Oversight

The Board is responsible for the effective financial planning and management (fiscal oversight) of the Town. The Supervisor is responsible for providing other members of the Board with timely and accurate financial information. Board members need this information to make informed decisions when preparing the annual budget; monitoring the budget, capital projects, and the Town's financial health throughout the year; and ensuring compliance with relevant laws and policies.

The Board and Supervisor have not provided effective oversight of the Town's financial operations. Poor management oversight has contributed to the Town having incomplete and inaccurate accounting records. Therefore, the Board could not rely on the accounting records to monitor the Town's financial operations and determine the financial condition of the Town's operating funds and capital projects. The incomplete accounting records and the Town's commingling of funds also precluded the Board from being able to determine the amount of interfund advances that were made and needed to be repaid, and the account clerk from being able to reconcile the Town's bank accounts.

Additionally, the Board's failure to properly authorize, monitor, and oversee capital projects has resulted in capital projects being overspent and capital project expenditures being funded through the use of Town resources that were meant for other purposes. Debt proceeds have also been commingled with the Town's operating fund moneys, which is not in compliance with law and may have resulted in debt proceeds being used for purposes other than for which the debt was issued.

Accounting Records

The Town's financial data must be complete, accurate, and current to be relevant and useful for managing Town operations. Records must conform to the Office of the State Comptroller's (OSC) Uniform System of Accounts. The Supervisor, as the chief fiscal officer, is responsible for the Town's basic accounting functions, maintaining adequate records, and periodically preparing and providing financial reports to the Board for review. If the Supervisor assigns these duties to an assistant(s), the Supervisor should provide sufficient oversight to ensure that the assistant(s) maintain suitable records and document financial information accurately and on a timely basis.

The Supervisor has assigned accounting duties to the account clerk and the Confidential Secretary to the Board (Secretary), but has not provided sufficient oversight to ensure that the account clerk and

Secretary maintained complete, accurate, and timely accounting records. Consequently, we found deficiencies with the Town's accounting records for the operating funds and capital projects funds, which included, but were not limited, to the following:

- The proper account codes, as outlined in OSC's prescribed Uniform System of Accounts, were not always used when recording assets, liabilities, fund equity, revenues, and appropriations.
- The cash balances for reserves (assets) that were recorded in the general fund, highway fund, Peru water district, and Peru sewer district were not in agreement with the corresponding reserve balances (fund equity) reported at fiscal year-end December 31, 2011.
- The cash balances and water/sewer rents receivable balances that were recorded in the Peru water district, Peru sewer district, and Valcour sewer district had negative balances at fiscal year-end December 31, 2011.
- Capital project expenditures were being incorrectly recorded in the general fund, Peru water district, Peru sewer district, and Valcour sewer district, instead of the capital projects funds that the expenditures were related to. For example, \$9,019 in expenditures related to the Little Ausable River Trail Project were recorded in the general fund.
- Capital project expenditures were also being recorded in the incorrect capital projects funds. For example, \$4,931 in expenditures related to the River Road water project were recorded in the Peru water plants upgrade capital projects fund.
- The capital projects funds contained adjusting journal entries that were made by the account clerk at fiscal year-end that were unsupported. For example, an adjusting journal entry was prepared by the account clerk on December 31, 2011, which resulted in \$59,604 in Peru water district operating expenditures being reallocated to the River Road water capital projects fund. We determined that none of the expenditures that were reallocated were for expenditures related to the capital project. The account clerk stated that due to Tropical Storm Irene some expenditures were made that were not budgeted for. At year-end, there were not sufficient funds to cover the expenditures and the Supervisor directed that the remaining expenditures be reallocated to the capital project.

The Supervisor's lack of effective oversight over the account clerk's and Secretary's maintenance of records has resulted in the Town's accounting records for the operating funds and capital projects funds being incomplete, inaccurate, and unreliable. The inadequate accounting records make it impossible for the Board to determine the financial condition of the Town's operating funds and capital projects. Without a reliable basis for Town officials to monitor financial activity and make informed financial decisions, the Town is at risk of having financial inefficiencies, fiscal stress, and over-expending capital projects, which are not identified and addressed in a timely manner. A similar finding appeared in our previous audit report issued in November 2007 (2007M-212).

Interfund Advances

General Municipal Law allows the Supervisor to temporarily advance moneys held in one fund to another fund. However, the Supervisor must maintain suitable records, and the Board must authorize each advance by resolution. Interfund advances are intended to address short-term cash flow needs of operating funds and/or capital projects and are, in effect, short-term borrowing arrangements between the operating funds and/or projects. For example, it may be necessary for capital projects that are funded by grant proceeds to borrow cash from an operating fund to finance required expenditures prior to receiving the grant proceeds. Repayment of the borrowed cash must be made as soon as moneys 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 that would have been earned on the investment of the moneys advanced.

The Town commingles the general fund's and corresponding capital projects' cash in the general fund bank account; the highway fund's and corresponding capital projects' cash in the highway fund bank account; and the Peru water district's, Peru sewer district's, Valcour sewer district's, and corresponding capital projects' cash in the water and sewer receiver bank account. Because the Town commingled funds and did not maintain adequate accounting records, we could only determine the interfund advances that were made during our audit period by verifying the transfers that were made between the Town's operating bank accounts. We could not identify interfund advances between funds that are commingled in the same bank account. We determined that the Town made three transfers totaling \$480,000 between the Town's operating bank accounts during our audit period, which we reviewed to determine if the interfund advances were approved by the Board, were properly recorded in the accounting records, and were repaid. Although we determined that all three of the interfund advances were properly recorded in the accounting records,

none of the interfund advances were approved by the Board and only \$15,000 of the interfund advances had been repaid as of the end of our fieldwork.

Although we could only review the three interfund advances that were made between Town's operating bank accounts during our audit period, the Town's commingling of funds and the negative cash balances in the Town's accounting records indicates that the Town's operating funds and capital projects funds used available cash from the Town's operating funds and capital projects funds without the Board's approval or without the Town formally recording those advances. Instead of reporting that an operating fund or capital projects fund had no cash balance and establishing an interfund liability when performing interfund advances, the Town allowed certain operating funds' and capital projects funds' cash accounts to be recorded as a negative balance without identifying the operating fund or capital projects fund to which cash was owed.

Town officials' failure to maintain records that identify the funds that are advancing and receiving moneys does not allow for the proper repayment of interfund advances with interest, and could result in taxpayer inequities between funds supported by different tax bases. Additionally, the failure to request and obtain Board approval for interfund advances, as required by law, has limited the Board's ability to monitor the Town's fiscal affairs.

Bank Reconciliations

The reconciliation of bank account balances to general ledger cash balances is an essential control activity. This process allows for the timely identification and documentation of differences between the Town's and the bank's cash balances. Bank reconciliations provide a unique opportunity for an internal verification of cash receipt and disbursement transactions. Without accurate and complete bank reconciliations performed or reviewed by an individual independent of the cash-custody function, Town officials cannot have a reasonable level of assurance that the accounting records are correct or that moneys are accounted for properly.

We reviewed four months of bank reconciliations¹ that were prepared during our audit period. We found that none of the bank reconciliations that the account clerk performed for the Town's commingled bank accounts agreed with the general ledger cash balances for the four months that we reviewed. Specifically, the adjusted bank balance exceeded the book balance by \$403 and \$42,015 during the months

¹ Our sample consisted of reviewing all of the bank reconciliations that were prepared during every fourth month during the 2011 fiscal year (April 2011, August 2011, and December 2011) and then selecting one of the two months within our audit period during the 2012 fiscal year (January 2012).

of April 2011 and August 2011, respectively, and the book balance exceeded the adjusted bank balance by \$3,112 and \$42,575 during the months of December 2011 and January 2012, respectively. Because the Town did not maintain adequate accounting records we could not determine nor could Town officials explain the cause of these variances.

The failure to properly reconcile bank accounts increases the risk that errors and irregularities may occur and not be detected and corrected. In addition, the inadequate preparation and lack of oversight of bank reconciliations increases the Town's exposure to the possibility of fraud, abuse, and professional misconduct. A similar finding appeared in our previous audit report issued in November 2007 (2007M-212).

Monthly Reports

Town Law requires that, at the end of each month, the Supervisor submit a monthly report to the Board of all moneys received and disbursed during the month. The report should include detailed monthly and year-to-date budget and actual comparisons and reconciled cash balances for each fund. Additionally, since the Board is responsible for monitoring the financial status of individual capital projects, the Board should receive monthly financial reports that compare actual revenues and expenditures for each capital project to the related budget. Complete and accurate financial reports provide essential financial information which the Board can use to monitor the Town's financial operations and capital projects.

The Supervisor did not provide the Board with adequate monthly financial reports. Although the Board receives monthly budget status reports for the Town's operating funds, the reports did not contain year-to-date budget and actual comparisons for revenues and did not include a detailed statement of all moneys received and disbursed during the month, and thus the Board could not effectively oversee the financial operations of the Town's operating funds. Additionally, although the Board receives monthly budget status reports for the Town's capital projects, the reports did not include any information related to revenues and did not include a comparison of actual expenditures for each capital project to the related budget, but instead only contained the year-to-date expenditures. As a result, the Board could not effectively monitor the capital projects or ensure that expenditures did not exceed the approved budgetary authorization.

The Board also receives a monthly cash balance report which lists the Town's bank accounts and corresponding cash balances. However, as previously mentioned, the account clerk could not reconcile all of the Town's bank account balances to the general ledger cash balances, and therefore, the cash balance reports do not provide reconciled cash balances for any of the Town's operating funds or capital projects.

When the Supervisor does not provide the Board with adequate monthly financial reports it hinders the Board's ability to exercise its financial oversight and increases the risk that errors, irregularities, or fraud could occur and not be detected and corrected in a timely manner. A similar finding appeared in our previous audit report issued in November 2007 (2007M-212).

Capital Project Management

When a town is financing a capital project with the proceeds of bonds or bond anticipation notes, Local Finance Law requires that a bond resolution be adopted, providing a description of the project, the estimated maximum cost, and a plan of financing the total cost of the project. Additionally, complete and accurate accounting records for projects are necessary for project management and proper financial reporting. The Town must keep project records in a manner that allows a ready comparison of the project's budget – as initially authorized (and if subsequently amended) by Board action – to actual resources received and expenditures incurred throughout the course of each project. The Board is responsible for monitoring the status of each project by reviewing monthly financial reports that compare actual revenues and expenditures to the related budget. The failure to limit expenditures to available authorizations creates the risk that money may not be available when required for necessary expenditures. Furthermore, Local Finance Law provides that proceeds of bonds or bond anticipation notes may not be commingled with operating fund moneys² and only can be expended for the purpose for which the obligations were issued or, if there are excess proceeds, to pay the debt service on those obligations.

As previously mentioned, the Town did not maintain adequate accounting records for projects and the Board did not receive the necessary monthly financial reports. As a result, the Board could not effectively monitor the Town's projects or ensure that expenditures did not exceed the authorized amounts. Based on these weaknesses, we reviewed a judgmental sample of five of the nine projects³ that were active during our audit period to determine if project expenditures were made within the constraints of the corresponding project resolution and/or grant agreement, project expenditures remained within the maximum estimated cost that was established by Board resolution, and project financing sources that were established

² The Board may, by resolution, deposit in a single special account the proceeds of two or more bond issues, but may not commingle bond proceeds with other Town funds, except moneys appropriated for the same capital project for which the bonds were issued.

³ We first made a list of all three general fund projects and a list of all six water and sewer projects that were active during our audit period. Our sample was then selected by taking every other project from the list of general fund projects and the list of water and sewer projects.

by Board resolution were sufficient to fund the expenditures incurred. We found exceptions with three of the five projects in our sample.

Safe Routes to School Program – We found that project expenditures exceeded the Town’s authorized maximum cost⁴ of \$72,050 by \$25,205. The Town’s grant coordinator stated that she was informed by the New York State Department of Transportation that the Town may be reimbursed an additional \$5,000 in excess of the \$72,050 amount established in the original grant agreement, but could not provide documentation of this during our review. Nonetheless, project financing sources are not sufficient to fund the expenditures that were incurred, and therefore, the general fund is responsible for providing the funds to offset the additional expenditures.

River Road Water Project – We determined that the bond resolution for the River Road water project established that the project was for the installation and replacement of water pipe and related valves on River Road with a maximum estimated cost of \$300,000 to be financed by a bond anticipation note in amount up to \$300,000. We identified project expenditures totaling \$285,809 that the Town had incurred related to work performed on River Road, which were within the \$300,000 authorized maximum cost established by Board resolution. Additionally, we determined that the Town issued a \$300,000 bond anticipation note, which was sufficient to fund the project expenditures incurred. However, we determined that the Town expanded the project to include water infrastructure work performed on Locust Drive and Main Street, but never amended the project by Board resolution⁵ or established financing sources to fund these additional expenditures prior to them being incurred, totaling \$89,057. The Supervisor stated the Town is going to fund these additional expenditures through the issuance of serial bonds in the near future, which were included in the bond resolution that was adopted by the Board on December 30, 2011 authorizing the issuance of serial bonds totaling \$3,001,500.⁶ However, since the Town has not received the debt proceeds, the \$89,057 in additional expenditures have been funded through the use of other available Town cash.⁷

⁴ The Town established an authorized maximum cost for the project of \$84,450, which included \$72,050 in expenditures that were to be incurred by the Town, \$11,400 in expenditures that were to be incurred by the New York State Department of Transportation, and \$1,000 in expenditures that were to be incurred by the Peru Central School District.

⁵ Town Law sets forth specific procedures, including board resolutions, public hearings and in some cases, referendum requirements, to be followed for capital improvements on behalf of water and sewer districts.

⁶ The bond resolution was amended on April 9, 2012, authorizing the issuance of serial bonds totaling \$3,265,350. \$2,651,000 of the total authorized issuance of \$3,265,350 is for a separate water treatment and distribution system project.

⁷ Local Finance Law §165.10 authorizes towns to apply bonds proceeds to reimburse other town funds temporarily advanced to pay for capital projects, so long as the bonds were authorized before the temporary advance of funds.

Water and Sewer Projects – We determined that the Board did not adopt a resolution for the McDonald Place water, Locust Drive sewer, and North Bend Road sewer project authorizing the maximum estimated cost and establishing how the project would be financed at its inception. We identified project expenditures totaling \$160,832 that the Town had incurred related to the project, which were incurred prior to the financing sources being established. The Supervisor stated the Town is going to fund these expenditures and additional expenditures that are going to be incurred related to the project through the issuance of serial bonds in the near future, which were also included in the bond resolution that was adopted by the Board on December 30, 2011 and amended on April 9, 2012 authorizing the issuance of serial bonds totaling \$3,265,350. However, since these expenditures were incurred before the bonds were issued, this would be an unauthorized use of the bond proceeds.

We also reviewed all 15 project cash receipts totaling \$3,262,724 that the Town received during the period January 1, 2008 to February 29, 2012 related to the nine projects that were active during our audit period, to verify that proceeds of obligations and other project financing sources were deposited into separate bank accounts where required. We determined that \$3,122,000⁸ was not deposited into a separate bank account as required. The Town commingled proceeds of obligations with the Town's operating fund moneys and therefore, was not in compliance with Local Finance Law. Because the Town commingled funds and did not maintain adequate accounting records we could not determine if debt proceeds were being used for purposes other than for which the debt was issued.

The failure of the Board to properly authorize, monitor, and oversee projects has resulted in projects being overspent and project expenditures being funded through the use of Town resources that were meant for other purposes. Additionally, debt proceeds have been commingled with the Town's operating fund moneys, which is not in compliance with law and may have resulted in debt proceeds being used for purposes other than for which the debt was issued. It is especially important for the Board to properly monitor and oversee projects because the Town is currently in the process of starting a water treatment and distribution system project, which has a budget of \$2,651,100.

⁸ The \$3,122,000 in proceeds of obligations consisted of bond anticipation notes totaling \$1,806,000 and serial bonds totaling \$1,316,000. \$1,206,000 of the bond anticipation notes were retired through the issuance of serial bonds (\$1,206,000 of the total \$1,316,000 serial bonds) and the remaining \$600,000 of the bond anticipation notes consisted of a \$300,000 bond anticipation note that was issued and then renewed in the same amount.

Annual Accounting

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

With the exception of the Town Justices, we found no evidence that the Board had examined the financial records and reports of any other officers and employees who received or disbursed moneys on behalf of the Town during the 2011 fiscal year. Specifically, the Board did not audit, or cause to be audited, the financial records and reports of the Supervisor, Town Clerk/Tax Collector, Code Enforcement Officer, Youth Director, and account clerk. The Board's failure to examine these records and reports hinders its ability to maintain accountability for Town assets; develop safeguards to protect those assets from loss, waste or abuse; establish policies to achieve fiscal objectives and address significant risks; and ensure that the Supervisor and other Town officers and employees follow established policies. A similar finding appeared in our previous audit report issued in November 2007 (2007M-212).

Recommendations

1. The Supervisor should ensure that the Town's accounting records for the operating funds and capital projects funds are complete, accurate and maintained in a timely manner.
2. The Board, Supervisor, account clerk, and Secretary should ensure that the accounting records are properly adjusted to reflect correct account balances and kept in accordance with the system of accounts prescribed by OSC.
3. The Board should authorize all interfund advances and the Supervisor should ensure that they are properly recorded in the accounting records. Additionally, the Board should ensure that all outstanding interfund advances are repaid, including appropriate interest.
4. The Board should ensure that complete and accurate monthly bank reconciliations are performed and ensure that any differences disclosed by the reconciliation process are promptly identified and resolved.

5. The Supervisor should prepare and provide adequate monthly financial reports to the Board. The Board should use these monthly reports as a means to monitor the Town's financial operations, and to ensure that funds are available and expenditures are kept within the limits of budgetary and project authorizations.
6. The Board should adopt a resolution at the inception of each project that identifies the project, authorizes the maximum estimated cost, and establishes how the project will be financed.
7. The Board should take appropriate action to ensure that debt proceeds are deposited and expended in accordance with the requirements of Local Finance Law.
8. The Board should annually examine, or cause to be examined, 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.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Town of Peru

3036 Main Street
Peru, New York 12972

Phone: (518) 643-2745
Fax: (518) 643-0078
www.perutown.com

Peter G. Glushko
Supervisor

Brandy L. McDonald
Councilmember

James T. Douglass
Councilmember

Kathleen Flynn
Town Clerk

Susan E. Polhemus
Councilmember

Kregg M. Bruno
Councilmember

August 27, 2012

Office of the State Comptroller
Division of Local Government & School Accountability
PSU - CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

To Whom It May Concern:

Please consider this letter as our response to the most recent audit conducted at the Town of Peru addressing the Town's Fiscal Oversight. This is a combined document containing both the response to the audit and the Town's Corrective Action Plan (CAP).

1. I, Peter Glushko, Town Supervisor and Chief Fiscal Officer for the Town of Peru, along with the governing Town Board agree with the findings and the recommendations contained in the Audit Report pertaining to "Fiscal Oversight."
2. The Town Board will oversee a complete review of the Town's operating funds and capital project funds for accuracy and will ensure maintenance of these funds in an accurate and timely manner. This action has already begun. A lack of stability in the recent past in key bookkeeping positions, coupled with a change to a new accounting program and uncertainty as to the accuracy of the financial data entered into the new accounting program has severely limited the Town's ability to verify accuracy within the new system. The Town has taken positive actions to include: a) stabilizing the key bookkeeping positions by keeping those bookkeepers in place long enough to stabilize those positions; b) providing for the proper formal training of the Town's bookkeepers through formal classes dealing with the [REDACTED] Accounting Program now used by the Town and Municipal Accounting Training provided by the NYS OSC personnel. The Chief Fiscal Officer will attend this same OSC training at the earliest opportunity possible.
3. The Town Board, Supervisor, Account Clerk and Secretary to the Town Board will continue a process already started to adjust current account records to reflect correct and current balances. We have already made the changes necessary to have our system of accounts agree with the OSC prescribed system.

4. The Board will, through formal resolution votes, ensure that all inter fund advances are authorized and the Supervisor will ensure proper recording of such transfers. Inter fund transfers were accomplished with the knowledge of the Board but without formal approval during the recovery from Tropical Storm Irene in an attempt to expedite timely reimbursement to the contractor performing the extensive repairs to the storm damage. This also covers the water and sewer repairs that occurred outside of the scope of the storm damage but coincidental to the recovery process. While the Board was informed of actions taken and expenses incurred, the formal approval process was foregone in error. We have learned from this emergency situation and will follow proper approval procedures in the future.
5. The Board will immediately provide increased scrutiny on the monthly bank reconciliation process. Increased attention to this area will ensure prompt identification and resolution of any problems.
6. The Supervisor has taken steps to provide more detailed financial reports to include revenues received and expenditures realized each month. This information is now included in the Supervisor's Report presented to the Town Board during the first Regular Board Meeting of each month.
7. The Board has started with the Water Quality Improvement Project to, by resolution, develop and adopt a project budget which authorizes the maximum estimated cost and establishes how the project will be financed. While some of these actions were taken for past projects, a budget for each project was not developed fully by formal process for several past projects. The budget process for each project, along with a clearer understanding of the "H" Fund accounting requirements, will allow for better monitoring of projects through project closure.
8. Separate accounts for debt proceeds have been established for current projects and will be established for each new project undertaken by the Town. The Town formerly had separate bank accounts open but these accounts were mistakenly closed in an attempt to try to clarify the Town's banking records. The new separate accounts will allow for a clearer picture of deposits and expenditures throughout the life of a project.
9. The Board will complete as soon as possible the already started 2011 Internal Controls Audit required annually. A plan will be developed to ensure completion of this Internal Controls Audit by the January deadline.
10. The Peru Town Board would like to thank the OSC Auditors for helping the Town to identify needed improvements to the way we conduct and record our financial operations. Your audit process has given the Town direction for the corrections necessary to undo the discrepancies caused by the Town's past internal problems.

Sincerely,

Peter Glushko
Town Supervisor
Town of Peru

Kregg Bruno
Councilman
Town of Peru

James Douglass
Councilman
Town of Peru

Brandy McDonald
Councilman
Town of Peru

Susan Polhemus
Councilwoman
Town of Peru

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, Board minutes, and financial records and reports. 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 objective and scope by selecting for audit those areas most at risk. We selected fiscal oversight for further audit testing.

To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed Town officials and the Town's grant coordinator and reviewed various financial records to gain an understanding of the Town's procedures for maintaining accounting records, performing interfund advances, preparing bank reconciliations, providing monthly reports to the Board, managing capital projects, and conducting an annual accounting.
- We reviewed the Town's accounting records to ensure that they were complete, accurate, current, and conformed to the OSC's Uniform System of Accounts.
- We reviewed the Town's bank statements during our audit period to determine all of the interfund advances that were made between the Town's operating bank accounts. We then reviewed the interfund advances to determine if they were approved by the Board, were properly recorded in the accounting records, and were repaid.
- We reviewed a non-biased judgmental sample of four months of bank reconciliations that were prepared during our audit period to verify that they agreed with the general ledger.
- We assessed the adequacy of the monthly financial reports provided to the Board.
- We reviewed a judgmental sample of five of the nine projects that were active during our audit period to determine if project expenditures were made within the constraints of the corresponding project resolution and/or grant agreement, project expenditures remained within the maximum estimated cost that was established by Board resolution, and project financing sources that were established by Board resolution were sufficient to fund the expenditures incurred. Because the Town did not maintain adequate accounting records for projects, the total expenditures were not available for the five projects in our sample. Nevertheless, we used the Town's accounting records to determine the expenditures that were recorded in the project funds for the five projects in our sample and then obtained the corresponding claims

to determine if they were expenditures related to the projects. We then had Town officials generate a vendor summary report from the Town's accounting software showing all of the payments that had been made to the vendors that were on the claims that we had already obtained, and then obtained all of the remaining claims that were listed to determine if they were also expenditures related to the projects.

- We reviewed project files, bank statements, deposit slips, and the Board minutes to determine all of the cash receipts that the Town received during the period January 1, 2008 to February 29, 2012 related to the nine projects that were active during our audit period. We then reviewed the 15 cash receipts to verify that proceeds of obligations and other project financing sources were deposited into separate bank accounts where required.
- We obtained annual accounting documentation and reviewed the Board minutes to find evidence that the Board had examined the financial records and reports of all Town officers and employees who received or disbursed moneys on behalf of the Town during the 2011 fiscal year.

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

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Steven J. Hancox, Deputy Comptroller
Nathaalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AND REGIONAL PROJECTS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313