



Town of Barrington

Financial Management

Report of Examination

Period Covered:

January 1, 2015 – April 10, 2017

2017M-103



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2017

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 Barrington, entitled Financial Management. 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 New York State 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 Barrington (Town) is located in Yates County and has a population of approximately 1,700. The Town is governed by an elected Town Board (Board) which is composed of four Board members and a Town Supervisor (Supervisor). The Board is the legislative body responsible for overseeing the Town's operations and financial affairs.

The Supervisor serves as the chief executive officer and chief fiscal officer and is responsible for overseeing the Town's day-to-day operations. These responsibilities include maintaining the accounting records and providing the Board with timely, accurate and useful financial information. The Town hired an accounting firm (Firm) to assist with the Supervisor's financial duties e.g., maintaining accounting records, preparing bank reconciliations and financial reports, processing payroll - including direct deposits, preparing and printing checks, filing payroll reports with government agencies and processing transfers between bank accounts. The Supervisor is responsible for providing oversight for these financial responsibilities. The Supervisor is also the Budget Officer and is responsible for preparing the tentative budget.

The Town provides various services to its residents, including Justice Court, fire protection, highway maintenance and improvement, snow removal and general government support. The Town's 2017 budgeted appropriations for all funds total approximately \$1.6 million and are funded primarily by real property taxes, payments in lieu of taxes (PILOT) and State aid.

Objective

The objective of our audit was to examine the oversight and management of the Town's financial operations. Our audit addressed the following related question:

- Did the Board provide sufficient oversight of the Town's financial operations?

Scope and Methodology

We examined the Town's oversight over financial operations for the period January 1, 2015 through April 10, 2017. We extended our scope back to January 1, 2014 to review budget and fund balance trends.

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 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 Management

The Board is responsible for effectively planning and managing the Town's financial operations. The Board must adopt structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. The Board should also adopt multiyear financial and capital plans to address long-term priorities. The Supervisor is responsible for maintaining accounting records and preparing accurate and timely financial reports to provide the Board with information to monitor the Town's financial affairs. The Board may hire an accounting firm to assist with these duties but the Board should enter into a written contract outlining the services to be performed and the Supervisor should oversee the firm's work. Furthermore, the Board must annually audit, or cause to be audited, the books and records of officers or employees who receive or disburse money during the year.

The Board did not provide sufficient oversight of the Town's financial operations. As of December 31, 2016, the unrestricted fund balance in the general town-wide fund was about \$1.2 million, or 273 percent of the ensuing year's budget. This was caused partly by the lack of a policy for the level of fund balance to be maintained. In addition, the Board did not adopt multiyear financial or capital plans to address long-term priorities. Further, the Board hired an accounting firm to perform bookkeeping and payroll duties without a written contract or proper oversight from the Supervisor and the Board did not perform annual audits of the books and records of officers or employees who received or disbursed money. Because the Firm kept the records off site, the Town's financial records were not available for public inspection during reasonable times as required by law. In addition, the Board did not receive necessary information such as detailed statements of money received and disbursed and the Firm performed payroll duties without oversight. As a result of the lack of financial oversight, the Board levied higher property taxes than necessary and its ability to effectively manage the Town's finances was severely diminished.

Budgeting and Fund Balance

It is essential that the Board adopt structurally balanced annual budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. Fund balance which represents the cumulative residual resources from prior years, can be used to lower real property taxes and help with cash flow, pay for unanticipated expenditures, or set aside in reserves to finance future costs for a variety of specific purposes. Proper management ensures funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future

expenditures. Town officials may also designate a portion of fund balance to help finance the ensuing year's budget (i.e., appropriated fund balance).

Towns should assess the level of fund balance that is reasonable by considering factors such as the timing of receipts and disbursements, the unpredictability of revenues and expenditures and contingency appropriations. If fund balance is excessive, funds that could benefit the Town are not being used, which places an unnecessary burden on the residents. Best practices provide that the Board adopt policies to govern the budget process and level of fund balance to be maintained.

From 2014 through 2016, the highway town-wide fund's unrestricted fund balance was maintained at reasonable levels. However, the general town-wide fund generated annual operating surpluses¹ that increased total fund balance by approximately \$395,000.

Figure 1: General Town-Wide Fund Unrestricted Fund Balance at Year-End

	2014	2015	2016
Beginning Fund Balance	\$846,161	\$983,721	\$1,082,023
Add: Operating Surplus	\$137,561	\$98,302	\$159,237
Ending Fund Balance	\$983,722	\$1,082,023	\$1,241,260
Less: Appropriated Fund Balance for the Ensuing Year	\$25,000	\$10,000	\$43,300
Less: Reserves	\$99,457	\$0	\$0
Total Unrestricted Fund Balance at Year-End	\$859,265	\$1,072,023	\$1,197,960
Unrestricted Funds as a Percentage of the Ensuing Year's Budget	199%	252%	273%

This occurred primarily because of unrealistic budget estimates for revenues and expenditures over the last three years and a lack of policies for budgeting and fund balance. The Town underestimated revenues by \$352,000 or 29 percent from 2014 to 2016, including revenues for PILOT payments and State aid mortgage tax by \$136,000 or 116 percent. Appropriations for health insurance and town hall expenditures were overestimated by \$73,000 or 42 percent for the same period. At the end of 2016, unrestricted fund balance was \$1,197,960 (273 percent of the ensuing year's budget) or enough to fund operations for approximately three years.² Furthermore, the fund balance includes cash at a local bank totaling approximately \$500,000 that has been dormant and not used for cash flow for about two years. The Town has accumulated an excessive fund balance in the general town-wide fund. The Town generally followed past budgeting practices when adopting the 2017 town budget. As a result, the Board may have levied higher property taxes than necessary.

¹ An operating surplus occurs when revenues exceed expenditures during the year.

² Real property taxes were \$346,670 in 2015, \$341,545 in 2016 and \$299,490 in 2017.

Multiyear Planning

It is important for Town officials to develop comprehensive multiyear financial and capital plans to estimate the costs of ongoing services and capital needs.³ Effective plans project operating and capital needs and financing sources over a three- to five-year period and enable Town officials to identify revenue and expenditure trends, set long-term priorities and goals, consider the impact of budgeting decisions on future years and avoid large fluctuations in tax rates. Multiyear plans also allow officials to assess the merits of alternative approaches, such as using fund balance to finance operations and accumulating money in reserve funds. Such plans work in conjunction with policies and procedures to provide guidance on the financial priorities and goals set by the Board. Any plan should be monitored and updated to provide a framework for preparing budgets and ensure that information is current and accurate.

The Board has not adopted multiyear financial or capital plans. As a result, its ability to effectively manage Town finances is diminished.

Supervisor's Oversight

The Supervisor, as the Town's chief fiscal officer, is responsible for maintaining accounting records and preparing accurate and timely financial reports to provide the Board with information to monitor the Town's financial affairs. New York State Town Law (Town Law) requires the Supervisor to maintain complete and accurate accounting records that are open and available for public inspection at all reasonable times. At the end of each month, the Supervisor is required to submit a report to the Board of all money received and disbursed. Monthly reports should include comparisons of actual revenues and expenditures to the budget (budget to actual reports), reconciled cash balances for each fund and bank reconciliations accompanied by bank statements. The Board may hire an accounting firm to perform most of the Supervisor's financial duties but should enter into a written contract outlining the services to be performed. However, the accounting firm cannot perform functions such as signing checks or making wire transfers that are vested by statute with the Supervisor. The Supervisor should oversee and monitor the work of the accounting firm to ensure it is performing allowed duties effectively and that financial data is safeguarded.

The Board hired the Firm to perform most of the Supervisor's financial duties without a written contract and the Supervisor did not properly oversee and monitor the work of the Firm. As a result, most of the Town's records, including cash receipt and disbursement journals, revenue and expenditure subsidiary ledgers, the general ledger and bank reconciliations, were maintained by the Firm away from the

³ Office of the State Comptroller's publication titled *Local Government Management Guide, Multiyear Financial Planning*, at <http://www.osc.state.ny.us/localgov/pubs/lmgm/multiyear.pdf>

Town office and not readily available for public inspection. Although the Firm provided monthly budget to actual reports for revenue and expenditure accounts to the Board and monthly information on cash balances by fund to the Supervisor, the Board did not receive detailed monthly statements of all money received and disbursed or bank reconciliations accompanied by bank statements.

Also, the Firm processes payroll, including direct deposits; prepares and reconciles bi-weekly, monthly and annual payroll reports and wage statements; prints Town checks and files payroll reports with government agencies. However, the Firm performs these duties with little to no oversight by the Supervisor. For example, the Firm does not provide payroll registers to the Town and the Supervisor does not certify payrolls; although the Supervisor does appropriately sign payroll and operating fund disbursement checks. Further, the Firm, rather than the Supervisor, transfers funds within the same bank to cover cash disbursements with no dollar limits or bank confirmations. Because electronic transfers typically involve significant amounts of money, it is important for the Town to have formal policies and procedures to limit the individuals authorized to make electronic transfers and require transfer instructions to be approved prior to execution and independently confirmed after the transfer.

As a result, the Town's financial records are not readily available for public inspection and the Board's ability to effectively monitor and manage financial operations is severely diminished.

Annual Audit

According to Town Law, by January 20th of each year, each Town officer or employee who received or disbursed moneys on the Town's behalf in the previous year must provide an accounting to the Board and produce all books, records, receipts, vouchers and canceled checks for audit. The Board is required to annually audit, or engage an independent accountant to audit, these records. The results of the audit should be documented in the Board minutes including a description of the records reviewed and the procedures performed.

The Board has not performed an annual audit of the books and records of the Supervisor or any other officer or employee who received or disbursed money. Therefore, the Board's ability to monitor the Town's financial operations was diminished and errors or irregularities could have occurred and remained undetected and uncorrected.

Recommendations

The Board should:

1. Adopt budgets with realistic estimates for revenues and expenditures.

2. Develop policies for budgeting fund balance to meet the Town's needs.
3. Use excess fund balance as a financing source for:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing real property taxes.
4. Adopt comprehensive multiyear financial and capital plans that project operating and capital needs and financing sources for three to five years.
5. Enter into a written contract with the Firm outlining the services to be performed including detailed language of each party's responsibilities.
6. Annually audit, or cause an audit of, the books and records of all officers and employees who received or disbursed money during the preceding year. Audit results should be documented in the Board minutes and include a description of the records reviewed and the procedures performed.

The Supervisor should:

7. Ensure that financial records are available at the Town office.
8. Ensure that monthly reports include a detailed statement of all money received and disbursed, reconciled cash balances for each fund, bank reconciliations and bank statements.
9. Ensure that the Firm provides payroll registers to the Town.
10. Certify payrolls.
11. Ensure that the Firm does not perform functions such as making wire transfers that are vested by statute with the Supervisor.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Town of Barrington
4424 Bath Road
Penn Yan, NY 14527

August 24, 2017

Edward V. Grant, Jr.
Chief Examiner
Office of the State Comptroller
16 West Main Street-Suite 522
Rochester, NY 14614

Dear Mr. Grant:

This letter is in response to the audit of our Town for the period covered January 1st, 2015 thru April 10th, 2017 also extending back to January 1, 2014 to review budget and fund balance trends, as required by your office stating whether we agree or disagree with your findings.

We agree with your findings and will be working on our Corrective Action Plan (CAP).

The Board and Supervisor will work together to adopt a budget with realistic estimates for revenues and expenditures to benefit the Town's needs; use excess fund balance as a financing source for the items as suggested; create a comprehensive multiyear financial and capital plan; discuss contracts with the accounting firm including detailed language; annually perform audits of all officers and employees who handle money for the Town which will be included in the minutes.

The Supervisor will ensure that the financial records are available at the Town office and that monthly reports include detailed statement of monies received and disbursed, along with making sure the accounting firm provides payroll registers to the Town Clerk. The Supervisor will also certify payrolls and ensure that the firm does not perform the functions that are vested by statute for the Supervisor.

This is a big undertaking and will require some time with cooperation between all town officials. Details will be submitted in our CAP report to you using the template your office has provided.

We are appreciative that the auditors were respectful and professional, with a wealth of information provided for all of our Town Officials to perform their statutory duties.

Your audit has served as a learning aid and will ultimately be a benefit to the overall foundation and annual functioning of the Town.

Sincerely,

Frederick Wright
Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Town officials and staff from the Firm and examined available records and reports to gain an understanding of Town operations.
- We reviewed Board minutes from January 2014 through January 2017 for actions relevant to budgeting, financial condition and annual audits.
- We reviewed cash receipts, cash disbursements, bank reconciliations, annual update documents and general ledgers to determine the reliability of financial records.
- We performed a financial comparison for 2014 through 2016 to examine trends in revenues, expenditures and operating results for all operating funds.
- We reviewed budgets and tax levies for 2014 through 2017 to determine the amount of fund balance appropriated.
- We assessed the Town's financial condition and calculated unrestricted fund balance as a percentage of the ensuing year's budget.

We conducted this performance audit in accordance with 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

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