



Town of Long Lake

Capital Projects and Reserve Funds

Report of Examination

Period Covered:

January 1, 2011 — July 31, 2012

2012M-235



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	3
CAPITAL PROJECTS	5
Recommendations	7
APPENDIX A Response From Local Officials	8
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2013

Dear Town Officials:

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

Following is a report of our audit of the Town of Long Lake, entitled Capital Projects and Reserve Funds. 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 Long Lake is located in the Adirondack Mountains of Northern New York State. The Town had a population of 711 as of the 2010 Federal Census. The Town is governed by an elected Town Board (Board) consisting of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's finances. The Supervisor is the chief executive officer and the chief financial officer of the Town. The Town's adopted budget for 2012 is \$4,012,006.

A capital projects fund is used to account for capital improvements and the acquisition of capital assets. The Town currently has six active capital projects with total authorized budgets of \$6,548,235. The Town also has four reserve funds totaling \$348,334 which are accounted for in the capital projects fund.

Objective

The objective of our audit was to determine if the Town is accounting for capital projects properly. Our audit addressed the following related question:

- Does the Town adequately account for capital projects and reserves to ensure that funds are expended as authorized?

Scope and Methodology

We examined the Town's capital projects for the period January 1, 2011 through July 31, 2012. We expanded our scope back to January 2000 to determine when the dump closure project ended.

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

Comments of Local Officials and Corrective Action

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

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit*

Report, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Capital Projects

The purpose of a capital projects fund is to account for all of the financial activity related to the acquisition or construction of major capital assets. The Board is responsible for establishing procedures to properly authorize, finance, and monitor the status of individual capital projects to ensure that moneys are properly accounted for and used only for their intended purposes. The Town can establish reserves to accumulate moneys over time to finance large capital expenditures. The establishment of reserves for specific purposes requires a Board resolution stating the purpose of the reserve and a maximum value for the reserve. Because the Town has State lands subject to taxation located in the Adirondack Park that are assessed at more than 30 percent of the Town's total taxable assessed valuation, the Office of the State Comptroller (OSC) must consent to the establishment of, and expenditures or transfers from, the Town's capital reserve funds.

Town officials have not closed out a capital project for a dump closure with a remaining cash balance of \$111,373. In addition, Town officials did not receive approval from OSC for establishing capital project reserve funds and exceeded the Board-authorized amount when funding two reserves by a total of \$101,445. These actions have prevented the Town from using these moneys to fund other needed projects or reduce taxes.

Capital Projects — The Board, by resolution, should authorize each capital project by stating the nature of the work to be undertaken, the total cost, and the sources of financing. Once a project is complete and all revenues have been received and all expenditures paid, the Board must pass a resolution closing the project, describing how moneys remaining are to be distributed according to statutory requirements and grant obligations, if applicable.

We determined that all six capital projects that were open as of December 31, 2011 were appropriately approved and accounted for. We reviewed all 12 revenues totaling \$64,251 recorded in the capital projects fund during the audit period and found each was posted to the appropriate project. We also reviewed a judgmental sample¹ of 10 expenditures totaling \$113,068 from a population of 148 expenditures totaling \$735,594 that were paid during the audit period and found that all funds were expended as authorized by the Board and the proper capital projects were charged accordingly.

¹ We selected this judgmental sample from all capital projects based on the name of the payee and the dollar amount of the payment.

We also reviewed a dump closure capital project that was open but not active and determined that the Board did not take the appropriate action to close this project, which was completed in fiscal year 2000, or approximately 12 years ago. Town officials are aware that the project had unspent funds remaining, totaling \$111,373, as of July 31, 2012. However, they indicated that they did not close the project because they did not have time to research the original source of these funds in which to return the moneys. As a result, Town officials have held more than \$111,000 in the capital projects fund rather than returning these moneys to the applicable operating funds to reduce real property taxes for financing operations.

Reserves — The Board must formally authorize the establishment of a reserve for a specific purpose and set forth the estimated maximum cost of the equipment or improvement.² If the amount of the improvement is later estimated to cost more than originally planned, the Board should pass a resolution amending the maximum amount of the reserve. Because the Town has State lands subject to taxation located in the Adirondack Park that are assessed at more than 30 percent of the Town's total taxable assessed valuation, OSC must consent to the establishment of, and expenditures or transfers from, the Town's capital reserve funds.

We examined all four reserves with assets totaling \$348,334³ which were accounted for in the capital projects fund and found that three were approved by the Board; however, the highway equipment reserve, with assets totaling \$88,135 as of July 31, 2012, lacked documentation that the Board formally established it. We also found no requests to, or approvals from, OSC that allowed the Town to establish the four reserves. The Board has neither properly monitored the amount on deposit in specific reserves as compared to the amount authorized nor amended the maximum amounts intended for these reserves.

Three of the reserves we reviewed were for specific purposes and, therefore, were not to exceed the Board authorized amounts. We found that two reserves contained a total of \$101,445 more than the maximum amount specified in the Board resolutions that authorized these reserves. For example, the Board authorized amount for the dock repair reserve was \$45,000; however, it had a balance

² A reserve for a specific purpose, such as a piece of equipment like a truck, requires that the Board establish the maximum authorized amount for the reserve. There is no requirement that the Board establish a maximum amount for reserves established for a general type of purchase, such as "equipment."

³ We reviewed the following reserves with corresponding balances as of July 31, 2012: Dock Repair Reserve \$77,500; Highway Equipment Reserve \$88,135; Highway Garage Repair Reserve \$98,945; X-Ray Reserve \$83,754.

of \$77,500 as of July 31, 2012, or \$32,500 more than authorized. Similarly the Board-authorized amount for the highway garage repair reserve was \$30,000; however, it totaled \$98,945 as of July 31, 2012, or \$68,945 more than authorized. We found that the Board authorized three interfund transfers to these reserves during the audit period totaling \$42,590 from the corresponding operating funds but made no expenditures from them over the past two years. As such, we question whether these reserves are necessary.

Allowing \$111,373 to remain in a capital project which has been completed for approximately 12 years and reserves to exceed the maximum authorized amounts by \$101,445 has prevented the Town from using these moneys to fund other needed projects or reduce taxes.

Recommendations

1. The Board should properly close-out the completed capital project and transfer the remaining funds back to the appropriate operating fund.
2. The Board should monitor the balances in specific reserves, amend the maximum amounts if necessary, or transfer the excess amounts back to the corresponding operating funds.
3. The Board should ensure that reserve funds are approved by OSC when the reserves are established.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



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February 4, 2013

Office of the State Comptroller
Division of Local Government and School Accountability
Jeffrey P. Leonard, CPA, Chief Examiner
110 State Street
Albany, NY 12236

Re: Town of Long Lake Audit Entitled Capital Projects and Reserve Funds
Local Official's Response

Dear Examiner Leonard:

Regarding the above noted, we agree that the findings are factually correct and we are going to take appropriate steps to rectify the problem.

Our written corrective action plan which addresses the findings and recommendations will be forth coming within 90 days.

Thank you.

Sincerely,

Clark J. Seaman
Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, capital projects and various Town departments.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as Town policies and procedures manuals, 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. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected capital projects for further audit testing.

During the audit, we interviewed Town officials, reviewed Board minutes and resolutions and reviewed relevant financial reports. This included a review of the following for capital project and reserve accounts:

- Vouchers, invoices, canceled checks
- Duplicate deposit tickets and bank statements
- Cash Receipts Journal and Cash Disbursements Journal entries
- General Journal and General Ledger entries.

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

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