



Town of Northampton

Financial Management and Internal Controls Over Town Clerk Receipts

Report of Examination

Period Covered:

January 1, 2011 — February 29, 2012

2012M-233



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 Northampton, entitled Financial Management and Internal Controls Over Town Clerk Receipts. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Northampton is located in Fulton County and has a population of approximately 2,670. The Town has one village within its boundaries, the Village of Northville. The Town is governed by a five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four council members. The Board is responsible for overseeing the operations, finances, and overall management of the Town. The Supervisor is the chief fiscal officer and is responsible for maintaining a record of all receipts, expenditures, and account balances, and for providing the Board with timely, accurate, and useful financial information. The Supervisor was assisted in these duties by the Town bookkeeper, who also served as the Town budget officer. The elected Town Clerk (Clerk) serves as clerk to the Board and is responsible for collecting and accounting for fees from licenses and permits. Appropriations for all funds in the 2012 budget totaled approximately \$1.9 million.

Scope and Objectives

The objectives of our audit were to evaluate the Town's financial management and the internal controls over the Clerk's receipts for the period January 1, 2011 through February 29, 2012. To analyze the Town's historical budgeted amounts of revenues, expenditures and fund balance, we extended our scope back to January 1, 2009 and through December 31, 2012 to review financial information. We examined cash receipts in the Clerk's office for the period January 1, 2011 through February 29, 2012. Our audit addressed the following related questions:

- Does the Board properly manage the Town's finances by adopting realistic budgets, maintaining a reasonable fund balance, and creating and using reserves appropriately?
- Are internal controls over the Clerk's cash receipts appropriately designed and operating effectively?
- Should the ambulance service provided in the Town be accounted for as a Town-owned function or a contracted service?

Audit Results

The Board did not provide adequate oversight and management of the Town's financial operations. The Board did not adopt detailed policies and procedures for its budget preparation process and the routine monitoring of the budget against actual operating results during the year. As a result, the Board adopted budgets with inaccurate estimates of revenues and expenditures. Further, activity in established reserves has not, in all cases, been in accordance with Board authorizations.

The Board and the Clerk did not establish adequate internal controls to ensure that the money the Clerk collected was recorded and deposited in an accurate and timely manner. As a result of not documenting the method of payment (cash or check) on the receipts, it is difficult to determine if deposits were made intact. In addition, deposits were not always made timely. Finally, the Clerk does not provide monthly reports timely to the Supervisor, or perform a monthly accountability of cash to liabilities. As a result, taxpayers and other interested parties cannot be assured that all money collected by the Clerk has been properly recorded and deposited.

The method of providing ambulance services to the Town is unclear. The Town has not entered into any contract with a volunteer ambulance squad or individual volunteers to provide an independent ambulance service. Since the Town owns the vehicles and facilities used by the ambulance service, it would appear that the Town is using volunteers to provide a direct town ambulance service.

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 agreed with our recommendations and indicated they have already initiated corrective action.

Introduction

Background

The Town of Northampton is located in Fulton County in the Adirondack Region of the State and has a population of approximately 2,670. The Town has one village within its boundaries, the Village of Northville. The Town is governed by a five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four council members. The Board is responsible for overseeing the operations, finances, and overall management of the Town. The Supervisor is the chief fiscal officer and is responsible for maintaining a record of all receipts, expenditures, and account balances, and for providing the Board with timely, accurate, and useful financial information. Through the 2012 budget cycle, the Supervisor was assisted in these duties by the Town bookkeeper who also served as the Town budget officer. The budget officer is responsible for compiling the initial budget estimates and producing the tentative budget. The entire Board is responsible for adopting and monitoring the budget and ensuring the Town's sound financial position. The elected Town Clerk (Clerk) serves as clerk to the Board and is responsible for collecting and accounting for fees from licenses and permits.

The Town provides various services to its residents including general administration, road maintenance and snowplowing, and water and sewer services to residents of special districts within the Town. Appropriations for all funds in the 2012 budget totaled approximately \$1.9 million. The Town derives its revenues mainly from sales tax, real property taxes, user charges, and State aid.

Objectives

The objectives of our audit were to evaluate the Town's financial management and the internal controls over the Clerk's receipts. Our audit addressed the following related questions:

- Does the Board properly manage the Town's finances by adopting realistic budgets, maintaining a reasonable fund balance, and creating and using reserves appropriately?
- Are internal controls over the Clerk's cash receipts appropriately designed and operating effectively?
- Should the ambulance service provided in the Town be accounted for as a Town-owned function or a contracted service?

**Scope and
Methodology**

We examined the financial management of the Town of Northampton for the period January 1, 2011 through February 29, 2012. To analyze the Town's historical budgeted amounts of revenues, expenditures and fund balance, we extended our scope back to January 1, 2009 and through December 31, 2012 to review financial information. We examined cash receipts in the Clerk's office for the period January 1, 2011 through February 29, 2012.

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 agreed with our recommendations and indicated they have already initiated 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 Clerk's office.

Financial Management

The Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers that fund its operations. This responsibility requires Board members to adopt structurally balanced budgets for all operating funds that include sufficient revenues to finance recurring expenditures. While Town Law provides a framework for the adoption of the Town's budget,¹ the Board is responsible for establishing a formal and systematic approach for developing the three key components of its adopted budget: estimated expenditures (appropriations), estimated revenues that will be available to fund appropriations, and the amount of available fund balance to be appropriated as a funding source to reduce the resultant tax levy.

The Town may retain a reasonable portion of fund balance, referred to as unexpended surplus funds, to use as a financial cushion in the event of unforeseen financial circumstances, and to finance future costs of various specified objects or purposes. Therefore, it is important that the Board adopt policies and procedures for the periodic monitoring of the annual budget and monitor the Town's revenues and expenditures throughout the year through the receipt of monthly status reports to ensure that moneys accumulated in operating funds are used for appropriate and authorized purposes.

The Board did not provide adequate oversight and management of the Town's financial operations. The Board did not adopt detailed policies and procedures for its budget preparation process and the routine monitoring of the budget against actual operating results during the year. As a result, the Board adopted budgets with inaccurate estimates of revenues and expenditures. Further, activity in established reserves has not, in all cases, been in accordance with Board authorizations.

Budgeting and Fund Balance

The Board is responsible for formulating an annual budget that balances the level of services desired and expected by Town residents with the ability and willingness of the residents to pay for such services. In preparing the budget, it is important for the Board to develop realistic revenue and expenditure estimates, along with an estimate of available fund balance at fiscal year-end. Fund balance represents moneys accumulated from prior fiscal years. The Town may retain a reasonable portion of fund balance to use as a financial cushion in the event of unforeseen financial circumstances, or can appropriate a portion of it to finance the next year's budget. If the fund balance is kept at excessively high levels, moneys that could

¹ Article 8, Section 100 - 109

benefit the Town are not being used, thereby placing an unnecessary burden on the taxpayers. It is important that the Board adopt policies and Town officials develop budgeting procedures to ensure that revenue and expenditure estimates are realistic, so that the amount of fund balance accumulated is reasonable and, therefore, taxes and user charges do not exceed necessary amounts. Accurate estimates also help ensure that fund balance used toward financing Town operations is not budgeted in an amount in excess of what is actually available.

The Board has not adopted a policy, and Town officials have not developed procedures, to govern the level of unexpended surplus funds maintained. Additionally, the Board has not developed accurate budget estimates, consistently overestimating expenditures and/or underestimating revenues. The failure to adopt accurate and realistic annual budgets and closely monitor them against actual results of operations during the year has allowed certain funds to accumulate excessive fund balances.

Expenditure Estimates – The Board has consistently overestimated expenditures for the Town’s major operating funds. Significant budget variances existed when comparing the actual expenditures to appropriations for the last four fiscal years ended December 31, 2012. The expenditure variances occurred in contractual and equipment items in the majority of cases.

Table 1: Expenditures Budget-to-Actual Results (Fiscal Years 2009 - 2012)						
Fund		2009	2010	2011	2012	Total 4 Years
Town-wide General	Budgeted	\$750,859	\$787,776	\$799,966	\$775,656	\$3,114,257
	Actual	\$572,622	\$601,655	\$535,798	\$537,170	\$2,247,245
	Variance	\$178,237	\$186,121	\$264,168	\$238,486	\$867,012
Town-Outside-Village General	Budgeted	\$132,019	\$132,619	\$164,272	\$147,334	\$576,244
	Actual	\$100,244	\$107,240	\$109,708	\$102,911	\$420,103
	Variance	\$31,775	\$25,379	\$54,564	\$44,423	\$156,141
Town-Outside-Village Highway	Budgeted	\$500,270	\$560,946	\$570,005	\$587,707	\$2,218,928
	Actual	\$406,556	\$449,710	\$463,573	\$456,695	\$1,776,534
	Variance	\$93,714	\$111,236	\$106,432	\$131,012	\$442,394
Water District	Budgeted	\$155,408	\$155,124	\$153,814	\$145,087	\$609,433
	Actual	\$95,590	\$109,113	\$90,352	\$79,377	\$374,432
	Variance	\$59,818	\$46,011	\$63,462	\$65,710	\$235,001
Sewer District	Budgeted	\$104,169	\$187,392	\$185,790	\$173,178	\$650,529
	Actual	\$102,843	\$67,618	\$90,363	\$67,463	\$328,287
	Variance	\$1,326	\$119,774	\$95,427	\$105,715	\$322,242
Total Budget Variance		\$364,870	\$488,521	\$584,053	\$585,346	\$2,022,790

Revenue Estimates – The Board has also underestimated revenues in its operating budgets for several years. The underestimated revenues in the Town-wide general fund and Town-Outside Village highway fund were primarily from County sales tax distribution. The variances in the sewer district fund were primarily in State aid.

Table 2: Revenues Budget-to-Actual Results (Fiscal Years 2009 - 2012)						
Fund		2009	2010	2011	2012	Total 4 Years
Town-wide General	Budget	\$389,374	\$412,088	\$398,522	\$418,577	\$1,618,561
	Actual	\$681,696	\$614,322	\$567,888	\$559,393	\$2,423,299
	Variance	\$292,322	\$202,234	\$169,366	\$140,816	\$804,738
Town-Outside-Village General	Budget	\$87,700	\$88,900	\$90,300	\$80,200	\$347,100
	Actual	\$105,432	\$96,215	\$95,421	\$128,535	\$425,603
	Variance	\$17,732	\$7,315	\$5,121	\$48,335	\$78,503
Town-Outside-Village Highway	Budget	\$266,500	\$273,800	\$274,400	\$289,280	\$1,103,980
	Actual	\$409,064	\$395,473	\$403,254	\$396,268	\$1,604,059
	Variance	\$142,564	\$121,673	\$128,854	\$106,988	\$500,079
Water District	Budget	\$70,140	\$67,321	\$98,025	\$114,050	\$349,536
	Actual	\$74,507	\$75,947	\$95,912	\$109,161	\$355,527
	Variance	\$4,367	\$8,626	(\$2,113)	(\$4,889)	\$5,991
Sewer District	Budget	\$102,371	\$163,356	\$164,504	\$154,941	\$585,172
	Actual	\$136,632	\$110,129	\$118,321	\$113,798	\$478,880
	Variance	\$34,261	(\$53,227)	(\$46,183)	(\$41,143)	(\$106,292)
Total Budget Variance		\$491,246	\$286,621	\$255,045	\$250,107	\$1,283,019

Consistently including unrealistic revenue and expenditures estimates in Town budgets can be misleading to taxpayers and ratepayers. Furthermore, the Board is unable to effectively manage financial operations when its annual spending plans are based on unrealistic and unreliable estimates. As a result of these continuous variances, fund balances in some funds have increased to excessive levels.

Table 3: Unreserved Fund Balances as a Percentage of the Ensuing Year's Budget					
Fund		2009	2010	2011	2012
Town-wide General	Unreserved Surplus Funds	\$359,225	\$327,227	\$321,755	\$305,981
	% of Ensuing Year's Budget	46%	41%	41%	40%
Town-Outside-Village General	Unreserved Surplus Funds	\$170,378	\$159,353	\$145,066	\$170,690
	% of Ensuing Year's Budget	128%	97%	98%	119%
Town-Outside-Village Highway	Unreserved Surplus Funds	\$443,426	\$364,033	\$278,514	\$193,087
	% of Ensuing Year's Budget	79%	64%	47%	35%
Water District	Unreserved Surplus Funds	\$73,321	\$35,174	\$35,734	\$60,518
	% of Ensuing Year's Budget	47%	23%	25%	39%
Sewer District	Unreserved Surplus Funds	\$146,554	\$179,065	\$196,959	\$223,358
	% of Ensuing Year's Budget	78%	96%	114%	103%

The adopted 2013 budget continued this unrealistic trend. Total appropriations in these funds were 47 percent more than the 2012 actual expenditures while total revenues in these funds were 16 percent less than the actual revenues received in 2012.²

The Board would be in a much better position to effectively manage and monitor the Town's financial condition by including more accurate and realistic estimates for revenues and expenditures. In addition, the Board only required the Budget Officer to provide quarterly budget status reports summarized by fund, and thus lacked the more timely and detailed information needed to adequately monitor budgets throughout the year and make necessary adjustments. While these reports are somewhat useful, the Board remains in a poor position to adequately manage financial operations until it develops more accurate and realistic annual budgets and then receives detailed monthly status reports with which to monitor the Town's revenues and expenditures throughout the year.

Reserves

Reserve funds may be established by Board action, pursuant to various laws, and are used to finance specific purposes. The statutes pursuant to which the reserves are established determine how the reserves may be funded and expended.

As of December 31, 2011, the Town had nine capital reserve funds containing a combined total of \$889,000. The activity in these reserves has not, in all cases, been in accordance with Board authorizations. For example, \$30,000 was transferred from the Highway Repair Reserve to the Highway Equipment Reserve in November 2011 without Board authorization. Also, \$10,000 budgeted to be deposited into the Highway Repair Reserve in 2011 was never deposited into the reserve. In December 2009, \$10,000 was transferred into the Sewer Repair Reserve; however, there was no authorization for this transfer either adopted in the budget, or documented by Board resolution.

The lack of proper monitoring of reserves could lead to reserve funds being expended without the Board's knowledge, or for expenditures for unintended or unauthorized purposes.

Recommendations

1. The Board should adopt a policy and establish procedures for preparing realistic and structurally balanced budgets, using actual financial results from prior years and other relevant and available data.

² Total 2013 appropriations for these funds were \$1,826,510, while the actual expenditures for 2012 were \$1,243,616. Total estimated revenues for these funds were \$1,057,048, while the actual revenues received in 2012 were \$1,307,155.

2. The Board should require that they are provided with the reports needed to actively monitor current year results against budget estimates throughout the year, to make appropriate and timely budget amendments, as necessary.
3. Reserves should be monitored to ensure that activity is in accordance with Board authorizations.

Town Clerk Receipts

The Clerk's office is responsible for receiving, recording, depositing, disbursing, and reporting all moneys collected in an accurate and timely manner. The Clerk's office collects receipts for a variety of items and services provided for by the Town, the County, and the State. The Clerk and Board are responsible for establishing and maintaining a system of internal controls to ensure that cash received by the Clerk's office is safeguarded and that the financial activity is properly recorded and reported. It is important for the Clerk to issue duplicate receipts which contain sufficient information including the type of payment received (cash or check), make deposits intact and on a timely basis, provide a timely monthly report to the Supervisor, and perform monthly accountabilities to satisfy these objectives.

The Board and the Clerk did not establish adequate internal controls to ensure that the money she collected was recorded and deposited in an accurate and timely manner. She does not document the method of payment (cash or check) on the receipts. As a result, it is difficult to determine if deposits were made intact. In addition, deposits were not always made timely. Finally, she does not provide monthly reports to the Supervisor in a timely manner, or perform a monthly accountability of cash to liabilities. As a result, taxpayers and other interested parties cannot be assured that all money collected by the Clerk has been properly recorded and deposited.

Receipts

It is essential for the Clerk to issue duplicate receipts that indicate the type of payment received (e.g., cash or check) to adequately document individual collections. This helps to ensure transactions are correctly entered in the accounting records, and that receipts are being deposited intact.³ We found that the receipts the Clerk issued did not always indicate the type of payment received.

We reviewed a judgmental sample of 10 receipts totaling \$475 from a population of 163 receipts totaling \$11,159 for miscellaneous revenues, and birth, death, and marriage certificates issued during our audit period to see if they contained sufficient information to determine whether the payments were cash or check. For five receipts totaling \$385, the method of payment could not be determined.

When duplicate receipts do not indicate the type of payment, Town officials are unable to verify that all receipts are properly recorded in the Clerk's cashbook, subsequently deposited intact in the bank, and reflected on monthly reports.

³ In the same order and form (cash or check) in which they were received

Deposits

Town Law requires that all moneys collected by the Clerk's office be deposited into the Clerk's official bank account no later than the third business day after the total exceeds \$250. The Clerk must deposit all moneys collected in the same sequence and form (cash or check) as received so that Town officials can track cash receipts through the accounting records to the bank statements to ensure that all moneys collected by the Clerk are properly deposited.

We tested the timeliness and completeness of deposits made. We found that the Clerk deposits collections only periodically during the month, and not within the timeframes stipulated in the Law. In addition, we were unable to determine if deposits were made intact, because there was no indication in the Clerk's records whether cash or checks were received (as previously indicated), and copies of detailed deposit tickets were not maintained.

We traced 40 receipts⁴ totaling \$8,069 from a population of 1,184 receipts totaling \$59,521, and found that 38 were deposited an average of 20 or more days after receipt, with the longest period between receipt and deposit being 72 days. For two permits totaling \$920, we could not determine when the permit was issued. Therefore we could not determine if the deposit was made timely.

Moneys collected that are not deposited in a timely manner reduces the effectiveness of controls over cash receipts which in turn increases the potential risk that cash could be lost or stolen.

Monthly Reports

Town Law requires the Clerk to submit a monthly report to the Supervisor of all moneys received and disbursed during the preceding month. This report is due by the 15th of the following month. Complete, accurate, and timely monthly reports provide financial information to the Supervisor and the Board that is necessary to effectively manage the Town's financial operations.

The Clerk does not submit a report of all moneys she receives and disburses to the Supervisor in a timely manner. We selected a judgmental sample of four monthly reports from a total population of 14 reports during our audit period. Three of the four reports tested were submitted from 24 days to 44 days late.⁵

Not ensuring the timely submission of a monthly Clerk report hinders the Supervisor and Board in appropriately monitoring the Clerk's office operations and providing adequate oversight.

⁴ See Methodology in Appendix B for detail on sample selection.

⁵ The February 2011 report was due to the Supervisor by March 15, 2011 but was not received until April 8, 2011, 24 days late. Likewise, the June 2011 report was 41 days late and the October 2011 report was 44 days late.

Accountability

On a monthly basis, the Clerk should compare cash, both on hand and on deposit in the official bank account, to a detailed listing of liabilities, including amounts due to various State and local agencies. This comparison, referred to as a monthly accountability, helps to ensure that all moneys are identified and accounted for properly.

The Clerk does not perform monthly accountabilities. Due to this weakness, we performed reconciliations on various dates and found differences between her available cash and known liabilities.

Table 4: Accountability			
Date	Cash Balance	Liabilities	Difference
February 28, 2011	\$229.45	\$209.74	\$19.71
June 30, 2011	\$927.60	\$1,104.95	(\$177.35)
October 31, 2011	\$3,314.75	\$1,529.22	\$1,785.53
February 29, 2012	\$236.90	\$170.74	\$66.16

The Clerk was unable to identify the reason for the differences, although they appear to be due to delays in transmitting payment to the Town Supervisor and the untimely posting of some transactions. The failure to reconcile available cash to liabilities reduces the reliability of the records maintained and the reports prepared by the Clerk's office.

In summary, the lack of adequate information on the duplicate receipts, combined with the lack of timely deposits, late reporting of financial activity to the Supervisor, and lack of month-end accountabilities create a weak internal control environment. This increases the likelihood that errors or omissions will occur and remain undetected.

Recommendations

4. The Clerk should indicate the type of payment received on duplicate receipts issued.
5. The Clerk should deposit all money collected intact and within three business days after the total exceeds \$250.
6. The Clerk should submit a monthly report of all moneys received and disbursed to the Supervisor in a timely manner.
7. The Clerk should establish cash accountability by comparing recorded liabilities to available cash on a monthly basis. Any differences should be promptly reviewed and resolved.

Ambulance Service

Statute⁶ authorizes towns to provide for ambulance services. Various methods of providing this function are allowed. A town may have paid employees or volunteers operate and maintain town-owned ambulances as a direct town ambulance service. A town may also contract with volunteer ambulance squads or individual volunteers to operate and maintain town ambulances, or provide a "full service" ambulance function. Since a town may not engage in fund raising activities, if the Town has directly engaged volunteers to run a direct town ambulance service, the Town volunteers may not, in their official capacity as Town volunteers, engage in fund raising.

We found that the Town has not entered into any contract with a volunteer ambulance squad or individual volunteers to provide an independent ambulance service. Since the Town owns the vehicles and facilities used by the ambulance service, it would appear that the Town is using volunteers to provide a direct Town ambulance service.

In addition, we found that the Town has two bank accounts related to the ambulance service, with cash balances of approximately \$176,000. Neither the Supervisor nor the Board were aware of these accounts. Only the Supervisor or other Town officers who have custody of Town moneys may open Town accounts. These accounts had been opened by a Town employee who is appointed annually by the Board as the Town's Ambulance Coordinator, a further indication that the ambulance service is a direct Town function. The Ambulance Coordinator informed us that all of the money in the accounts came from various fundraising activities. However, fund raising activity is prohibited by official Town functions.

Recommendation

8. The Supervisor and Board members should consult with the Town's legal counsel and determine the status of the Town ambulance service and related personnel, as well as how and if the Board wishes to continue providing ambulance services to its residents. Once these determinations are made the Board must then decide on how the funds in these bank accounts are to be dealt with.

⁶ General Municipal Law Section 122-b

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Linda Kemper
Supervisor

Elaine Mihalik
Town Clerk

Town of
NORTHAMPTON
Supervisor
P.O. Box 479
412 South Main Street
NORTHVILLE, N.Y. 12134
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Darryl Roosa

Office Of The State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

April 21, 2013

Re: Town of Northampton
Report of Examination

Dear Sir:

In response to the draft audit report of the Town of Northampton, entitled "Fiscal Management and Internal Controls over Town Clerk Receipts", the Town Board members as well as myself have had the opportunity to review the preliminary report. The Town of Northampton agrees with the findings in the audit report as presented by the examiner(s). The Town will follow up and file a completed Corrective Action Plan (CAP) as well as corrective actions already implemented within the required 90 days.

On behalf of the Town, I wish to express our appreciation for the professionalism exhibited and the guidance provided by your Examiner throughout the field audit phase of the examination as well as his helpful guidance in assisting the Town Clerk with identifying and carrying out her duties correctly and efficiently following the recommendations of OSC.

Corrective actions on many of the deficiencies within the Town Clerk's office were implemented immediately, under the guidance of the field examiner, and are continuing to be done on a day to day basis.

The Town of Northampton taxpayers expect their Town government to operate efficiently and effectively, to keep taxes down, to budget within our limited means, while providing a level of service that meets our residents' needs. This requires long term planning in such a way as to insure those needs can still be met and services would continue, in the event of emergencies or fiscal crisis. Currently the Town remains debt free. We feel that the Town has been diligent in it's spending and accountability to the taxpayers.

The past few years have been difficult for the budgeting process. The financial crisis that negatively impacted our economy, both federal and state governments, coupled with mandates, increasing costs and reduced reimbursements from all sources, has left municipalities with an unknown projection of the long term impact on local Town finances. As such, the Town has held off on many large projects, repairs and equipment purchases, this trend cannot be extended indefinitely without suffering a sacrifice to services. For the last two years, we have also anticipated a substantial loss of sales tax revenue as a result of an existing Wal-Mart relocation. Fortunately for the Town that project has experienced numerous delays in building. However, this project will be completed soon and the store will be opened in June of this year, resulting in an estimated \$100,000 loss per year in revenues. This will seriously deplete our fund balances within the Town.

It should be noted that The Town of Northampton has not had an actual audit since the 1990's; a risk assessment had been performed but unfortunately the items stated in this report apparently were beyond the scope of a risk assessment review and were not recognized or mentioned. As with many small towns, previous practices of prior administrations are carried forward, without anyone realizing those practices may no longer be the most practical. While recognizing the limited amount of resources and personnel within many government offices, it would be helpful for all municipalities and other entities to be able to identify and remedy any deficiencies that may exist through the assistance of the OSC and a more frequent review by an examiner.

On behalf of the Town Of Northampton, we again thank the examiner for his courteous manner, professionalism, knowledge, time and helpful guidance in rectifying the issues and deficiencies as were brought to our attention throughout the audit process and exit interviews. We appreciate all of your efforts to help us recognize any weaknesses and recommendations of correction. We will continue to strive toward improving the quality of government efficiency, and fiscal oversight of the Town and Town Clerk's operations.

Sincerely,

Linda Kemper
Supervisor, Town of Northampton

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 condition and control environment, cash receipts and disbursements, cash management, Justice Court operations, Clerk operations, Building Department operations, Highway Department operations, tax collection, water and sewer rents, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents, such as Town policies and procedures where available, Town Board minutes, and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weakness existed, and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected financial condition and Clerk cash receipts for further testing.

To accomplish our audit objectives and obtain valid evidence, our procedures included the following:

- We analyzed various account balances in the Town's accounting records and verified their accuracy.
- We reviewed the adopted budgets and annual financial reports filed with our office and compared these to the accounting records of the Town to establish their accuracy.
- We interviewed the Town Supervisor, Town Board Members, and the Town budget officer / bookkeeper to determine the budgeting process in place in the Town.
- We reviewed the Board resolutions creating all reserves that were in place in the Town during our audit.
- We reviewed the ledgers for the individual reserves to determine that all activity was supported by board resolutions.
- We interviewed the Clerk to determine how she accounted for cash receipts in the Clerk's Office
- We reviewed duplicate receipts where available, the cash receipts journals, ledgers, duplicate deposit tickets, bank statements and reports of moneys received to determine that moneys received by the Clerk were being properly receipted, recorded, deposited, and remitted to the Supervisor in a timely manner. We traced a judgmental sample of 10 receipts totaling \$475 from a total population of 163 receipts totaling \$11,159 for miscellaneous revenues and birth,

death, and marriage certificates to determine if these receipts were being deposited timely. We also reviewed a second judgmental sample of 10 transfer station receipts. We then traced a judgmental sample of 10 building permits totaling \$1,540 from a population of 75 receipts totaling \$8,329. Finally, we reviewed of a judgmental sample of 10 deposits totaling \$6,529 from a population of 51 deposits totaling \$34,463.

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.

APPENDIX C

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Andrew A. SanFilippo, Executive Deputy Comptroller
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