



Town of Sodus

Financial Management and Professional Services

Report of Examination

Period Covered:

January 1, 2011 — February 14, 2013

2013M-99



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 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 Sodus, entitled Financial Management and Professional Services. 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 Sodus (Town) is located in Wayne County and has a population of approximately 8,400, including the Villages of Sodus and Sodus Point, which lie within the Town's borders. The Town is governed by an elected Town Board (Board), which comprises the Supervisor and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor, who serves as chief financial officer, is responsible for the day-to-day management of the Town under the direction of the Board.

The Town provides various services to its residents including water, road maintenance, snow removal, and general government support. The Town's 2013 budgeted town-wide (TW) general, TW highway, town-outside-village (TOV) general, TOV highway, and water appropriations totaled approximately \$3.6 million, funded primarily by real property taxes, sales tax, State aid, and water use charges.

Scope and Objective

The objective of our audit was to review the Town's financial management and procurement of professional services for the period January 1, 2011, through February 14, 2013. We expanded the scope back to 2008 to review the Town's fund balance levels and budgeting trends. Our audit addressed the following related questions:

- Did the Board adopt realistic budgets and properly monitor and manage the Town's financial operations?
- Did the Town use competitive methods when procuring professional services?

Audit Results

The Board has not developed comprehensive policies for budget development and monitoring and consistently adopted budgets with inaccurate estimates for revenues and expenditures. As a result, the combined surplus fund balance of the TOV funds totaled \$608,000 for 2011 (equal to 97 percent of expenditures) and \$556,317 for 2012¹ (equal to 77 percent of expenditures). While the combined TW funds maintained a reasonable total fund balance of approximately \$398,000 (or 24 percent of expenditures) in 2012, this was the result of ineffective budgeting for the individual funds, which created a deficit in the TW highway fund that was ultimately offset by a surplus in the general fund.

¹ After the fund balance appropriation of \$134,655 for the TOV general fund and \$7,500 for the TOV highway fund in the 2013 budget

Town officials appropriated fund balance in the budgets for the ensuing years' operations, which should have reduced the excessive fund balance, but most of the appropriated fund balance went unused because of ongoing budgetary and operating surpluses. Unless Town officials develop and adhere to procedures for realistic budgeting and diligently monitor operations against the budget throughout the year, they will increase the risk of over-taxing residents for services provided.

The Board also has not adopted an investment policy, as required by law. Further, the Board and Supervisor have not adopted policies or procedures for finance-related operations to provide detailed guidance to staff and ensure financial duties were adequately segregated. In addition, the Board did not authorize 15 interfund advances (totaling \$192,000) made in 2011, did not require adequate records of all interfund advances, and did not repay fiscal year 2011 advances totaling \$169,864 by year-end as required.

The Board also did not provide for proper and/or timely annual audits of the Town Clerk, Justice Court, and Supervisor's Office, as required by law, and did not initiate corrective action in response to certain findings and recommendations in previous audit reports from both the Town's external auditor and the State Comptroller's Office. Such audits are valuable tools for helping Town officials take the necessary actions to maintain a healthy financial condition for the Town and adequately safeguard Town resources.

Finally, we found that in 2011 and 2012 the Town paid \$312,703 to seven professional service providers without soliciting competition or making adequate price or quality comparisons to help ensure the prudent and economical use of public moneys. Town officials also were unable to provide contracts for the payments in 2011 and 2012 for three of the seven providers. Without proper agreements that specify the contract period, the services to be provided, the timetable for completion, and the basis for compensation, the Town is at risk of not receiving all the services anticipated, or paying more for services than intended.

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 disagreed with certain aspects of our audit findings and recommendations, but indicated their intent to implement corrective action for many of them. Appendix B contains OSC comments on the issues raised in the Town's response.

Introduction

Background

The Town of Sodus (Town) is located in Wayne County and has a population of approximately 8,400, including the Villages of Sodus and Sodus Point, which lie within the Town's borders. The Town is governed by an elected Town Board (Board), which comprises the Supervisor and four board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor, who serves as chief financial officer, is responsible for the day-to-day management of the Town under direction of the Board. The Supervisor's secretary performs financial recordkeeping, processes payroll, and maintains leave records.

The Town provides various services to its residents including water, road maintenance, snow removal, and general government support. The Town's 2013 budgeted appropriations for the town-wide (TW) general, TW highway, town-outside-village (TOV) general, TOV highway, and water funds totaled approximately \$3.6 million, and were funded primarily by real property taxes, sales tax, State aid, and water use charges. The TW funds have tax bases that encompass the entire Town, including the Villages. The TOV funds have tax bases that encompass only the portion of the Town that lies outside of the Villages.

Objective

The objective of our audit was to review the Town's financial management and procurement of professional services. Our audit addressed the following related questions:

- Did the Board adopt realistic budgets and properly monitor and manage the Town's financial operations?
- Did the Town use competitive methods when procuring professional services?

Scope and Methodology

We examined the Town's financial management and procurement of professional services for the period January 1, 2011, through February 14, 2013. We expanded the scope back to 2008 to review the Town's fund balance levels and budgeting 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 C 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 disagreed with certain aspects of our audit findings and recommendations, but indicated their intent to implement corrective action for many of them. Appendix B contains OSC comments on the issues raised in the Town's response.

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.

Financial Management

The Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers who fund its operations. This responsibility requires the Board to adopt structurally balanced budgets, which include sufficient revenues to finance recurring expenditures, for all operating funds. It is important that the Board prepare the budget based on actual financial results from prior years along with other relevant available data, and periodically monitor the annual budget throughout the year to ensure that expenditures do not exceed appropriations. The Board's responsibilities to manage the Town's finances include adopting appropriate policies and procedures and conducting an annual audit of departments that receive or disburse cash.

Because the Board did not develop policies and guidelines for budget preparation and monitoring, it repeatedly adopted budgets with inaccurate revenue and expenditure estimates, which led to the accumulation of significant surplus funds. Additionally, the Board did not have a long-term plan for identifying fiscal trends, which would have facilitated the budgeting process. We also found that the Board did not adopt an investment policy or develop guidelines over other key financial areas; did not properly authorize interfund advances; and did not provide for timely and/or proper annual audits of the Town Clerk, Town Justice, and Supervisor's office.

Budgeting Practices

It is essential for the Board to establish policies and procedures that help ensure the adoption of realistic and structurally balanced budgets, so that recurring revenues finance recurring expenditures. In addition to accurate revenue and expenditure estimates, Town officials must have available to them a reasonable estimate of the fund balance – i.e., the difference between revenues and expenditures accumulated from prior years – that will be available at the end of the current fiscal year, when they are developing the budget. The Board is responsible for retaining enough unexpended surplus funds² at the end of the year to provide a reasonable financial cushion for unexpected events

² The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

and cash flow in the ensuing year. The Board may then appropriate a portion of surplus fund balance as a financing source in the ensuing year's budget to reduce the tax levy. The appropriation of fund balance should result in a planned operating deficit (expenditures exceeding revenues) for that budget/fiscal year and can be an effective tool to responsibly reduce surplus fund balance. However, the Board must use accurate fund balance estimates and careful planning to avoid over-appropriating fund balance and potential fiscal stress.

Town Law, guidance from the Office of the State Comptroller (OSC), and sound fiscal management practices also require the Board to monitor the budget and ensure that appropriations are still available before expenditures are made. A review of monthly budget-to-actual reports throughout the year can alert the Board to revenue shortfalls that should be addressed in a timely manner, and ensure that, in accordance with law, expenditures are not made without available appropriations.

The Board did not adopt detailed budget policies and procedures for accurately estimating revenues, expenditures, and available fund balance and for determining the appropriate levels of unexpended surplus funds to retain for unforeseen occurrences or cash flow issues and to appropriate as a funding source. Further, Town officials had not developed budget monitoring and amendment procedures or a long-term financial plan. As a result, the Board adopted annual budgets with unrealistic estimates for revenues, expenditures, and the amount of fund balance that would be used to balance the budget. These practices resulted in the accumulation of excess funds which could have been put to productive use in the interest of Town taxpayers.

The Board routinely appropriated fund balance in its adopted budgets for the TOV and TW general and highway funds, which should have generated planned operating deficits and decreased fund balances. However, significant positive variances between the budget and actual operating results reduced the effect of the appropriated fund balance so that the total unexpended funds at year end remained excessively high. Because the TOV general and highway funds cover the same areas of the Town and, likewise, the TW general and highway funds cover the same areas of the Town, the TOV and TW funds can be combined to assess financial condition.³ Tables 1 and 2 illustrate surplus fund balance trends over five years for the TOV and TW general and highway funds.

Town-Outside-Village Funds — The Board has gradually decreased the excessive fund balances in the TOV funds, but sizeable balances

³ The Board may, by resolution, authorize the transfer of surplus moneys from the general fund to the highway fund, within the same tax base; however, it cannot transfer moneys from the highway fund to the general fund.

still remain. The Board planned for operating deficits in each of the five years by appropriating a total of \$863,000 of fund balance as a financing source. However, the Board's estimates of revenues and expenditures were consistently unrealistic. For example, combined sales tax revenues were under-estimated by \$91,585 in 2011 and \$49,443 in 2012, and the TOV highway fund's repair expenditures were over-estimated by \$38,946 in 2011 and \$94,098 in 2012. In addition, combined expenditures were consistently over-estimated over the five years, by a total of \$472,000.⁴ The total positive budget variances of \$529,000 diminished the intended effect of the annual appropriation of fund balance and resulted in either operating surpluses or operating deficits that were smaller than planned. Overall, \$311,800 (36 percent) of the combined appropriated fund balance was not used as budgeted to reduce unexpended surplus funds.

Table 1: Town-Outside-Village Funds – Surplus Fund Balance					
	2008	2009	2010	2011	2012
TOV General: Unexpended Surplus Funds	\$490,149	\$444,690	\$493,275	\$443,103	\$356,185
TOV Highway: Unexpended Surplus Funds	\$225,691	\$137,962	\$153,943	\$164,942	\$200,132
Combined TOV Unexpended Surplus Funds	\$715,840	\$582,652	\$647,218	\$608,045	\$556,317
As % of Combined Expenditures	155%	115%	96%	97%	77%

As of December 31, 2011, the combined surplus fund balance of the TOV funds, totaling \$608,045, amounted to 97 percent of combined 2011 expenditures, indicating that the Town had significantly more TOV resources than needed. The final audited financial reports for 2012⁵ indicate that the combined surplus fund balance has decreased to \$556,317,⁶ which equates to 77 percent of 2012 expenditures. While this is an improvement, it is still excessive; the Board should estimate revenues and expenditures more accurately during budget preparation so that fund balance is appropriately reduced but does not continue to be depleted once a reasonable level is reached. Because the Board increased appropriations in its 2013 budget for both TOV funds, despite consistent over-estimates and budgetary and operating surpluses, the TOV funds will again report excessively high fund balances at the end of 2013.

Town-Wide Funds — Although the TW general and highway funds have had a reasonable combined fund balance level, the Board has not effectively budgeted for the individual funds (see Tables 2 and

⁴ During the same period, revenues were under-estimated in the TOV general fund but were over-estimated by a similar amount in the TOV highway fund, therefore essentially not affecting the total TOV fund balance, but also not presenting a truly accurate financial plan.

⁵ Received from the Town on July 15, 2013

⁶ After the fund balance appropriation of \$134,655 for the TOV general fund and \$7,500 for the TOV highway fund in the 2013 budget

3). For the TW highway fund, the Board appropriated excessive amounts of fund balance in the 2008 and 2009 budgets.⁷ While the Board decreased its fund balance appropriation for the 2010 through 2012 budgets, fund balance had already declined too much, and the TW highway fund reported a deficit fund balance of \$74,821⁸ at the end of 2011.

Table 2: Town-Wide Funds — Surplus Fund Balance					
	2008	2009	2010	2011	2012
TW General: Unexpended Surplus Funds	\$204,284	\$301,112	\$331,151	\$453,451	\$389,640
TW Highway: Unexpended Surplus Funds	\$84,972	\$96,563	\$3,683	(\$74,821)	\$8,839
Combined TW Unexpended Surplus Funds	\$289,256	\$397,675	\$334,834	\$378,630	\$398,479
As % of Combined Expenditures	15%	22%	18%	21%	24%

Final 2012 results show that the fund had an operating surplus and recovered from this deficit, but the year-end fund balance was only 1 percent of the fund's expenditures. Furthermore, Town officials cannot be sure operations will continue to improve, unless they budget more realistically in the future to reduce reliance on fund balance appropriations and maintain fund balance at reasonable levels.

Conversely, in the TW general fund, the Board created significant budget surpluses each year by under-estimating revenues by over \$414,700 and over-estimating expenditures by over \$320,000, for a total positive budget variance of over \$735,000. Even though the Town appropriated more than \$729,000 in fund balance during the five years, the positive budget variances largely offset these fund balance appropriations; accordingly, the decreases in total fund balance were smaller than planned for 2008, 2009, and 2012, and the total fund balance actually increased in 2010 and 2011. Unexpended surplus funds in the TW general fund decreased, as the result of a small operating deficit, to approximately \$390,000 as of December 2012, amounting to 40 percent of its 2012 expenditures.

Table 3: Town-Wide Funds — Appropriated Fund Balance Not Used					
	2008	2009	2010	2011	2012
TW Highway: Appropriated Fund Balance	\$221,500	\$225,000	\$50,000	\$50,000	\$5,000
TW Highway: Operating Surplus/(Deficit)	(\$258,359)	(\$163,410)	(\$92,880)	(\$118,706)	\$95,532
TW Highway Unused Appropriated Fund Balance	(\$36,859)	\$61,590	(\$42,880)	(\$68,706)	\$5,000
TW General: Appropriated Fund Balance	\$221,700	\$194,500	\$75,000	\$125,000	\$113,000
TW General: Operating Surplus/(Deficit)	(\$134,269)	(\$32,507)	\$80,039	\$110,473	(\$23,052)
TW General Unused Appropriated Fund Balance	\$87,431	\$161,993	\$75,000	\$125,000	\$89,948

⁷ \$221,500 (39 percent) for 2008 and \$225,000 (73 percent) for 2009, then \$50,000 in the 2010 and 2011 budgets

⁸ After \$5,000 of unavailable fund balance was appropriated for 2012

In the TW highway fund, operating deficits rendered the appropriated fund balance amounts insufficient to compensate for over-expenditures. However, in the TW general fund, \$539,000 (74 percent) of the appropriated fund balance over the past five years was not used as budgeted to reduce fund balance.

The Board continually included inaccurate estimates in the budget for certain TW revenues and expenditures. For example:

- State aid revenue was under-estimated by \$52,042 (208 percent) in 2011 and by \$59,003 (327 percent) in 2012 in the TW general fund. Nonetheless, in the 2013 budget this revenue estimate was not increased accordingly, but slightly reduced from the 2012 budgeted amount, by \$1,572.
- Sales tax distribution was budgeted at \$25,000 each year in the TW general fund budget. However, this revenue should be accounted for only in the TOV budget (where the Town appropriately reported it).
- Health insurance expenditures were over-estimated in the two TW funds by a total of \$25,000 (20 percent) in the 2011 and 2012 budgets, with no change in the 2013 estimate.
- Attorney expenditures were over-estimated in the TW general fund by \$12,800 (65 percent) in 2011 and 2012, but the 2013 budget remained the same.

Without addressing the budgeting deficiencies of the individual TW funds, the Town may not be able to retain appropriate levels of TW fund balance for continuing operations. While the Board may transfer moneys from the general to the highway fund if needed, it is still prudent to budget for sufficient revenues to cover anticipated costs, maintain positive fund balances, and avoid unnecessary property taxes for each individual fund.

In the 2013 budget, the Board did increase the TW highway fund revenue and expenditure estimates slightly which may help generate a small operating surplus for 2013. However, in the TW general fund, the Board increased revenues only slightly and increased the already overstated appropriations, and will likely generate another significant operating surplus in 2013. The Board should adopt and monitor realistic budgets to ensure that each fund is in a healthy financial position and that combined fund balance is reasonable and does not become excessive.

In addition to adopting accurate budgets, the Board must also monitor financial results against the budget throughout the year to identify and

address in a timely manner any revenue shortfalls or actual costs that may exceed appropriations. This will help ensure that, in accordance with law, expenditures are not made without available appropriations. The Supervisor did not provide the Board with budget-to-actual reports. Although one Board member periodically requested and reviewed the operating results for selected departments, the entire Board is responsible for monitoring the entire budget and making necessary amendments throughout the year. The Board must adopt and monitor more structurally sound budgets to ensure the Town maintains reasonable fund balance levels and good financial condition.

Long-Term Planning — Together with diligent budget monitoring, planning on a multiyear basis allows municipal officials to identify developing revenue and expenditure trends, budget for capital needs, and set long-term priorities and goals. With a working model of major revenue and expenditure categories,⁹ Town officials can assess the impact and merits of alternative approaches to financial management, such as the use of unexpended surplus funds to finance operations.

The Board has not developed a comprehensive, multiyear financial plan, nor does it have any other mechanism in place to adequately address the Town's long-term needs. With a long-term financial plan in place, officials can better determine future needs and have greater assurance of maintaining reasonable fund balance levels without accumulating excessive surplus funds.

Management Oversight

The Board is responsible for instituting appropriate internal controls to safeguard the Town's resources and ensure that residents within different tax bases¹⁰ are treated equitably. This responsibility includes implementing policies and procedures required by law (an investment policy, procurement policy, and code of ethics), and – as sound business practice – for finance-related areas such as cash receipts and disbursements, budgeting, and fund balance level. Such policies should ensure that duties are properly assigned so that the same individual cannot control all aspects of financial transactions, without compensating controls such as independent review or additional supervisory oversight. Further, the Board must approve interfund advances and ensure they are properly recorded and appropriately repaid as required by law. The Board must also perform, or provide for, an annual audit of the books and records of all Town employees who receive and disburse cash on the Town's behalf.

⁹ The OSC website offers resources for developing long-term plans, including a four-year plan template and an online tutorial, at <http://www.osc.state.ny.us/localgov/myfp/index.htm>. See also “*Multiyear Financial Planning*” in the *OSC Local Government Management Guide* (<http://www.osc.state.ny.us/localgov/pubs/lmg/multiyear.pdf>).

¹⁰ The Town's TW operating funds have tax bases that encompass the whole Town, including the Villages. The TOV funds have tax bases that encompass only the part of the Town that lies outside of the Villages.

Policies and Procedures — Written policies and procedures formally establish and communicate to staff the manner in which to conduct the day-to-day operations of the Town and provide reasonable assurance that Town assets are adequately safeguarded. General Municipal Law (GML) requires the Board to adopt written policies for investments and for procurements not subject to legal requirements for competitive bidding, and to adopt a code of ethics. The Board should also develop written policies, and the Supervisor should develop written procedures for all finance-related areas including cash receipts and disbursements, payroll processing, and maintenance of leave records. Such procedures help ensure that duties are adequately segregated or compensating controls are in place.

The Board has not adopted an investment policy as required by law, and thus lacks assurance that all Town investments are made in compliance with legal requirements and the Board's intentions. Additionally, the Board and Supervisor had not adopted policies and procedures for cash receipts and disbursements, payroll processing, and maintenance of leave records to define responsibilities and provide guidelines to employees. We also found that the Supervisor had not adequately segregated the financial duties in his office and had not implemented adequate compensating controls.

The Supervisor's secretary (secretary) performs most financial recordkeeping and payroll duties with limited oversight by the Supervisor¹¹ or other Board members. The secretary maintains the accounting records, completes bank reconciliations, and prints vendor checks for the Supervisor's signature. She also inputs payroll information, processes payroll, creates the payroll register and reports, maintains personnel files and leave records, and prints payroll checks for the Supervisor's signature. Our testing of various financial records¹² did not find any significant exceptions. However, without properly segregated duties or compensating controls over financial activities, the Town has an increased risk that accounting errors and irregularities may occur and remain undetected and uncorrected.

Interfund Advances — GML authorizes the Board to approve (by resolution) cash advances between Town funds for short-term cash flow needs. The statute requires that repayment be made as soon as moneys are available, but no later than the close of the fiscal year in which the advance was made, and with interest if the advance is between funds with different tax bases. When advances are not repaid in a timely manner and are maintained for an extended period of time,

¹¹ The Supervisor occasionally opens and reviews bank statements and canceled checks and also reviews payroll reports and signs disbursement checks.

¹² See Appendix C, Audit Methodology and Standards, for details on our testing.

they become, in effect, interfund transfers¹³ instead of temporary advances of cash. It is therefore essential that records be maintained to indicate the funds involved in the transfer, the reason for the transfer, and specific plans for repayment.

The Board has not established appropriate controls over interfund advances, ensured that detailed accounting records were maintained, or ensured that all interfund advances were properly submitted for its approval. As a result, interfund advances were not properly handled by the Supervisor's former secretary; and the Supervisor did not have information available to substantiate some sizable, and sometimes negative, interfund balances¹⁴ from prior years. Had the Supervisor reviewed all proposed interfund advances and submitted them for Board approval, as well as requiring and routinely reviewing detailed interfund advance records, Town officials would have been in a position to identify the improper accounting and address all issues and unresolved balances at least annually as required.

We reviewed the 16 interfund advances made in 2011, totaling \$230,227, for proper Board authorization and subsequent repayment. The Board did not approve 15 of these advances, which were made by the former Supervisor's secretary,¹⁵ totaling \$192,000. Additionally, only \$8,873 of the advances was repaid by year end as required. An additional \$51,490 was repaid in 2012; however, \$169,864 of the 2011 advances remained unpaid after 2012.

Because the Supervisor lacks sufficient records of prior-year activity to identify the funds that advanced and received moneys, Town officials cannot ensure the proper repayment of interfund advances, with interest, which could result in taxpayer inequities between funds supported by different tax bases. Additionally, the failure of the Board and the Supervisor to ensure proper Board review and prior approval of interfund advances, as required by law, limits the Board's ability to monitor the Town's financial affairs.

Annual Audits and Corrective Action — In accordance with Town Law, by January 20 of each year, each Town officer or employee who received or disbursed any moneys in the previous year must provide an accounting to the Board for these moneys and must produce all books, records, receipts, vouchers, and canceled checks for audit. The Board must audit these records or engage an independent public

¹³ Interfund transfers are permanent allocations of money from one fund to another and are not expected to be repaid.

¹⁴ Interfund advances are accounted for using the "Due From Other Funds" account (indicating an asset) and "Due to Other Funds" account (indicating a liability) within each operating fund.

¹⁵ The current Supervisor's secretary started with the Town in May 2012.

accountant to do so. The Board should ensure that the completion and results of the audit are included in its meeting minutes and documentation filed detailing how the audit was performed and the records that the Board reviewed. Further, the Board is responsible for taking corrective action to address weaknesses identified in any audit.

The Board did not audit or engage an independent public accountant to audit the books and records of the Town Clerk (Clerk) and Town Justice (Justice). The failure to annually audit the Clerk's records was cited in a previous OSC audit report,¹⁶ released in 2010, which reported fraud in the Clerk's office. While the Town has improved controls and recordkeeping in the Clerk's office, the Board has not yet implemented this prior audit recommendation and begun auditing the Clerk's records. The previous occurrence should have demonstrated to Town officials the importance of continual review and an effective annual audit of Town department books and records. Although the Board did engage an independent public accountant to audit the Supervisor's records, the audits were not completed in a timely manner. The 2009 report was not provided until December 2010, the 2010 report was not provided until February 2012, and the 2011 report had not been received by the Town as of the end of our fieldwork in February 2013. Additionally, the Board has not addressed the findings in the auditor's reports that noted the lack of segregation of duties in the Supervisor's office and the lack of policies, including the investment policy required by law. The Board has yet to address these findings, which are discussed under "Policies and Procedures" in this report.

The Board's failure to properly examine the Clerk's and Justice's records, ensure timely examination of the Supervisor's records, and take adequate corrective action for all audit recommendations diminishes its ability to manage the Town's financial operations.

Recommendations

1. The Board should develop and adopt a written policy for budget development and monitoring and for maintaining an appropriate level of fund balance in each fund.
2. The Board should develop realistic, structurally balanced budgets, taking into consideration actual results of prior years' operations. If the Board decides to appropriate fund balance, it should ensure that adequate funds are available, and that it appropriates only the amount it expects to realistically use.
3. Town officials should use the unexpended surplus funds identified in this report in a manner that benefits the taxpayers. Such uses could include, but are not limited to:

¹⁶Town of Sodus – Town Clerk's Office (Report No. 2010M-96)

- Increasing necessary reserves
 - Paying off debt
 - Financing one-time expenditures
 - Reducing property taxes.
4. The Supervisor should provide interim budget-to-actual reports and the Board should review them to monitor results throughout the year, making any necessary budget amendments in a timely manner.
 5. The Board should develop and implement a comprehensive long-term financial plan.
 6. The Board should adopt an investment policy as required by law.
 7. The Board should adopt policies related to key financial operations including cash receipts and disbursements, payroll processing, and the maintenance of leave records.
 8. The Supervisor should adequately segregate the duties of his office or implement effective compensating controls.
 9. The Board should approve interfund advances before they are made, and ensure they are properly recorded and amounts paid back, with interest as appropriate, within the year as required.
 10. The Board should provide for a timely annual audit of all Town officials or employees who receive or disburse Town funds, including the Clerk, Justice, and Supervisor and should maintain documentation detailing the records reviewed and the outcome of the audit.
 11. The Board should initiate timely corrective action to audit findings.

Professional Services

GML does not require competitive bidding for the procurement of professional services that involve a specialized skill, training or expertise, professional judgment or discretion, and/or a high degree of creativity. However, GML requires the Town to adopt a procurement policy which provides guidance for all procurements not subject to competitive bidding requirements, including professional services, to assure the prudent and economical use of public moneys without favoritism, extravagance, or corruption. Soliciting written proposals or quotes, as through a request for proposal (RFP) process, is an effective means to procure professional services at the best value and document how the selection was made. In addition, the Board and each professional service provider should enter into a written agreement indicating the contract period, the services to be provided, the timetable for completion, and the basis for compensation. A proper agreement provides a clearly defined and mutually agreed-upon basis for the services to be provided and entitlement to payment.

The Town has developed a procurement policy, as required, but the policy does not require the solicitation of written proposals or quotes or other methods of cost and quality comparison for the acquisition of professional services, and the Supervisor informed us that the Town did not do so. In 2011 and 2012 the Town paid \$312,703 to seven professional service providers without soliciting competition, comprising \$218,897 for engineering services, \$57,216 for legal services, \$24,250 for external audit services, and \$12,340 for other consulting¹⁷ services.

In addition, although the Supervisor said the Town had a contract with these seven professional service providers, Town officials were unable to provide the contracts for the payments in 2011 and 2012 for three of the providers.¹⁸

When the Board does not require the use of competition for obtaining professional services there is an increased risk that the Town will not procure services in a manner that will optimize quality and cost and avoid favoritism or corruption. Additionally, without adequate written agreements detailing the type and timeframe of services to be provided and the compensation to be paid, the Town may not be receiving all services contracted for or could pay more for services than intended. For example, the engagement letters from the external

¹⁷ Energy conservation and financial services

¹⁸ Town officials did provide a new contract that authorized continued service with one of these three providers.

auditor to the Town, confirming the Town’s engagement of the auditor for annual audit services, do not detail the timeframes for the start and completion of the audit; a more detailed agreement with specified timeframes would have enabled the Town to hold the auditor accountable for a timely completion of the audit.¹⁹

Recommendations

12. The Board should consider amending the Town’s procurement policy to include the use of competitive methods when procuring professional services.
13. The Board should enter into a written agreement with all providers of professional services to the Town, indicating the contract period, the services to be provided, the timetable for completion, and the basis for compensation. The Board should also ensure that all contracts are available to assist Town personnel contract management and claims processing.

¹⁹ See the “Annual Audits and Corrective Action” section of this report.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Town of Sodus

Steven LeRoy, Supervisor
14-16 Mill Street - Sodus, New York 14551
315-483-4430
smleroy@rochester.rr.com



Town of Sodus Response to Audit Results:

(This responds paragraph by paragraph to the OSC Audit Report)

While we feel that the Town Board has in fact developed and traditionally practiced comprehensive policies for budget development, we recognize and agree that consistent monitoring of the budget throughout the 2011 year had been deficient. In 2012, we underwent some personnel changes and adopted numerous enhanced accounting and monitoring strategies. As a result, we feel there has been discernible improvement in this area. However, the Town Board is unanimous in their opinion that the fund balance we've carefully maintained for the past several years is completely appropriate. We do not agree that our 2011-2012 fund balance is the result of "ineffective" budgeting but rather the product of "responsible" budgeting.

See
Note 1
Page 22

In June of 2013, the Town did adopt an investment policy, (a copy of that policy was supplied at the exit conference). We also adopted a telephone usage policy and a town owned equipment policy.

We require that all interfund transfers/advances be approved by the Town Board. If in fact, unauthorized advances were made in 2011 (as is stated in the executive summary), it was done without the Supervisor's knowledge.

See
Note 2
Page 22

Budgetary constraints often limit our ability to have dual/multiple oversight of computer accounting transactions on a daily basis. It is the responsibility of the Account Clerk (Clerk to the Supervisor) to bring any necessary interfund transfers to the Supervisor's attention. These transfers are then added to the monthly agenda for approval by the Board. Again, we feel that there has been greatly improved communication in this area over the past year and we are confident that all necessary transfers will be handled appropriately in the future.

The Sodus Town Clerk's Office underwent a 6 month long audit by the Comptroller's Office in 2010. Although the "period covered" in the final report is January 1, 2008 – September 28, 2009, during the time the auditors were here, records and accounts were reviewed up to present. As a result of that audit there were in fact many, many corrective actions taken within the Town Clerks Office.

Furthermore, the Supervisor's Office has undergone an annual external audit every year since 2006. As part of that audit, several functions of the Town Clerk are examined as well. It is the feeling of the Town Board that adequate auditing of both offices had been performed through 2012. An audit of both the Town Clerk's Office and the Supervisor's Office is included in the 2014 budget.

The statement in the executive summary *"and did not initiate corrective action in response to previous audit reports from both the Town's external auditor and the State Comptroller's Office"* is greatly inaccurate. We have

See
Note 3
Page 22

The Town of Sodus is an Equal Opportunity Provider and Employer.
Complaints of discrimination should be sent to:
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taken corrective action (sometimes extensive) following every audit. We may not be in full compliance with auditor recommendations but following an audit we have certainly made attempts to improve practices based on the findings.

Where auditing of the Justice Court is concerned... we have been following a policy for many years that had been endorsed by both the Comptroller's Office and our external auditor. As a regular practice at every monthly board meeting, all proceedings of the court have traditionally been reviewed and approved by the Board. Up until this year, we had the understanding that this was an acceptable method of auditing. We now know that we are required to file a completed checklist for review of justice court records annually and we will do so in the future.

See
Note 4
Page 22

It's understood that our audit results have not always been available in accordance with AUD deadlines. The Town accepts responsibility for those delinquencies. Assuming we can prompt our external auditor to begin his process earlier in the year and with improved town accounting practices, we will likely be able to submit future AUD's in a timely fashion.

See
Note 5
Page 22

Although the Town does appoint certain professional service providers by resolution at our annual organizational meeting along with the dollar amount to be paid hourly (engineer, attorney, special prosecutor, physician) , we understand that these appointments have not been subjected to competitive bidding. We will make it a point to do that in the future.

See
Note 6
Page 22

There are other professional services hired by the Town that are under contract such as our insurance carrier, external auditor and others that do give us a detailed contract for services. We can produce those contracts at any time.

See
Note 7
Page 23

To address the statement *"making adequate price or quality comparisons to help ensure the prudent and economical use of public moneys"*...

Two years ago, we switched the Town's medical insurance plan after a lengthy price comparison. We left no stone unturned. This move saved the Town over \$25,000.00 in a single year. A few months ago we did a price comparison with several banks and switched all of our business to Lyons National after many years with HSBC (now First Niagara) saving the town a considerable amount of money. We also price shopped our liability insurance carrier this year which ultimately led to a substantial savings for the Town.

See
Note 8
Page 23

Based on the findings in this executive summary, the Town will take action to improve where we can heading into the new year.

See
Note 9
Page 23

Respectfully,

Steven LeRoy
Sodus Town Supervisor

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

The Town's response letter is based on the Executive Summary of this report rather than the detailed findings and recommendations contained in the body of the report. Accordingly, in the notes below we have included references, where applicable, to specific sections of the report. A thorough review of the criteria, testing, and detailed audit findings can help Town officials understand the audit results and recommendations made at the end of each section.

Note 1

Excessively high fund balance, as discussed under Budgeting Practices, precludes moneys from being used productively and could cause the tax levy to be higher than necessary.

Note 2

As chief fiscal officer, the Supervisor is responsible for ensuring that interfund advances are submitted to the Board for approval before being made, and for reviewing records to ensure that transactions are not recorded without the Supervisor's knowledge.

Note 3

We modified the Executive Summary to clarify that the Board did not initiate corrective action to certain findings and recommendations in the audit reports, as specified in the finding "Annual Audits and Corrective Action."

Note 4

Town officials did not provide evidence of effective monthly audits of the Justice Court during our audit fieldwork, and minutes generally indicated only the receipt of the Justice's monthly reports.

Note 5

The report addresses the Town Law requirement for the Board to annually audit the records of the Supervisor; not the annual update document (AUD) filing required by General Municipal Law.

Note 6

In the report section titled Professional Services, we explain that, while procurements of professional services are not subject to competitive bidding requirements, competitive price and service comparisons should nonetheless be solicited to help ensure that the Town pays the lowest available price for the required services.

Note 7

We gave the Supervisor and other Town personnel numerous opportunities to produce contracts for the three service providers discussed, but they did not do so either during our fieldwork or at the exit conference.

Note 8

We encourage Town officials to apply similar price and service comparison procedures to all professional service providers periodically, including the seven unrelated vendors referenced in the report detail.

Note 9

The Executive Summary serves as an overview of our findings. We encourage Town officials to review the detailed findings and recommendations that follow the Executive Summary, which provide a thorough explanation of our audit testing and results and the basis for our conclusions and recommendations.

APPENDIX C

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: Board oversight, financial management, cash receipts and disbursements, purchasing, payroll, and information technology. During the initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents, 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, or professional misconduct. We then decided upon the reported objective and scope by selecting for audit the areas most at risk. We selected the Town's financial management and procurement of professional services for further audit testing.

The objective of our audit was to review the Town's financial management and procurement of professional services. We examined the Town's financial management and procurement of professional services for the period January 1, 2011, to February 14, 2013. We expanded the scope back to 2008 to review fund balance and budgeting trends. To achieve the objective of this audit and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and employees to gain an understanding of Town processes and operations and to determine the internal controls in place.
- We reviewed Town policies, union agreements, the employee handbook, and minutes of the Board meetings.
- We analyzed fund balance for the period 2008 through 2012. We also compared budgeted revenues and expenditures to actual operating results for 2008 through 2012.
- We reviewed total annual revenues and expenditures to determine the operating deficits or surpluses for each fund. We also reviewed budgets for 2008 through 2012 to determine the amount of fund balance that was appropriated for each fund each year.
- We reviewed individual line item budget-to-actual results for 2011 and 2012 and compared these results with the 2013 adopted budget.
- We randomly selected two months for testing by selecting one month from the period prior to, and one from the period after, the new Supervisor's secretary was hired. Our selection period included January 2011 through April 2012 (16 months) and May 2012 through November 2012, the last month completed (seven months). For the two randomly selected months, July 2011 and September 2012, we performed the following tests:

- o We traced all transfers and withdrawals from the bank statements to other Town accounts or supporting payment information.
- o We compared bank statement deposits to financial records of receipts.
- o We reviewed disbursements and compared bank statements and canceled check images to financial records and abstracts to determine if payments were for valid Town purposes and if they corresponded with financial records.
- We compared a biweekly payroll for July 2011, totaling \$22,717, for 25 employees with canceled checks (when applicable) or the direct-deposit report, approved salary/pay rates, and time records to determine if employees were paid appropriately. For salaried employees, we compared 2011 total gross salary paid per the W-2 tax form with approved rates.
- We reviewed leave records and compared leave earned and used with payroll reports for July 2011.
- We reviewed interfund receivable and liability (“due to” and “due from”) accounts in 2011 and 2012 to determine if 2011 interfund advances were authorized, appropriate, and repaid.
- We reviewed the 2009 and 2010 CPA reports and management letters. We also reviewed the 2011 and 2012 engagement letters.
- We reviewed the Town’s process for procuring professional services.
- We reviewed and totaled payments in 2011 and 2012 to seven professional service providers used by the Town.
- We reviewed contracts with professional service providers who received payments in 2011 and 2012.

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 D

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DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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