



Town of Clifton Financial Management

Report of Examination

Period Covered:

January 1, 2013 — April 30, 2014

2014M-217



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2014

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 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 Clifton, entitled Financial Management. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your Town, 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 Clifton (Town), located in St. Lawrence County, is 134 square miles and serves about 750 residents. The elected five-member Town Board (Board) is the legislative body responsible for managing Town operations, including maintaining sound financial condition. The Town Supervisor (Supervisor) is a Board member and serves as the Town's chief executive officer and chief fiscal officer.

The Town provides various services to its residents, including highway maintenance, snow removal, water, street lighting, public recreation,¹ a library and general government support. The Town's 2014 budget appropriations were \$572,000 for the general fund, \$740,000 for the highway fund and \$78,000 for two water districts, funded primarily with real property taxes, user charges and State aid.

The former Supervisor² resigned in August 2013 and the Board appointed the current Supervisor to fulfill his remaining term, which expired December 31, 2013. The current Supervisor was elected in November 2013 to a four-year term commencing on January 1, 2014.

Scope and Objective

The objective of our audit was to determine if Town officials provided adequate oversight of the Town's financial activities for the period January 1, 2013 through April 30, 2014. We extended our audit period back to 2012 for our review of selected financial operations and back to 2011 for our review of equipment leases. Our audit addressed the following related question:

- Did the Board provide adequate oversight to ensure that financial activities were accurately recorded and reported in a timely manner and did it effectively manage the Town's financial condition?

Audit Results

The Board has not provided adequate oversight of the Town's financial activity. Due to the poor condition of the Town's financial records and reports, Town officials were unable to determine the Town's true financial condition. In addition, the 2012 Annual Update Document (AUD) filed by the bookkeeper was inaccurate because aggregate cash balances were overstated by \$203,000.³ Based on

¹ Such as a public beach and a playground

² For purposes of this report, we will refer to this Supervisor as the former Supervisor and the appointed/newly elected Supervisor as the current Supervisor.

³ The Town was flagged by the State Comptroller's Fiscal Stress Monitoring System (FSMS) as susceptible to stress. We determined that financial condition was worse than our FSMS analysis indicated.

our review of cash balances and reconstruction of current liabilities and accounts receivable, the Town had cash deficiencies of approximately \$140,000 and \$325,000 at the end of fiscal years 2012 and 2013, respectively. The bookkeeper had not filed the 2013 AUD as of May 28, 2014.

The former Supervisor did not provide sufficient oversight of the bookkeeper to ensure that the Town's records were maintained in a timely manner and were reliable. Because the bookkeeper did not receive the guidance she required to address the Town's cash deficiency, she used interfund loans and transfers to attempt to keep the Town operational. While she was experienced with recording routine transactions, she was not as experienced in regard to interfund transactions. This lack of knowledge resulted in misstatements in the Town's accounting records, which obscured the Town's true financial condition. In addition, the Board did not complete a sufficient audit of the Supervisor's books and records. A comprehensive audit would have alerted the Board to the Town's poor financial records and the Town's declining financial condition.

The Board has not adopted a comprehensive multiyear financial and capital plan to adequately address the Town's long-term operational and capital needs. Town officials do not perform a formal needs assessment or cost-benefit analysis prior to acquiring highway equipment. In addition, we found no indication that the Board formally approved lease and lease-purchase agreements for two pieces of equipment that cost about \$272,000 over seven years, one of which does not get extensive use. Lastly, two of the Town's lease-purchase agreements do not comply with legal requirements, and the Town's deferral of some of the associated costs will require it to raise funds to make substantial final payments totaling about \$187,000 at the end of the contract periods.

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 generally agreed with our recommendations and indicated they planned to take 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 New York State 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.

Introduction

Background

The Town of Clifton (Town), located in St. Lawrence County, is 134 square miles and serves about 750 residents. The elected five-member Town Board (Board) is the legislative body responsible for managing Town operations, including maintaining sound financial condition. The Town Supervisor (Supervisor) is a Board member and serves as the Town's chief executive officer and chief fiscal officer.

The Town provides various services to its residents, including highway maintenance, snow removal, water, street lighting, public recreation,⁴ a library and general government support. The Town's 2014 budget appropriations were \$572,000 for the general fund, \$740,000 for the highway fund and \$78,000 for two water districts, funded primarily with real property taxes, user charges and State aid.

The former Supervisor⁵ resigned in August 2013 and the Board appointed a new Supervisor to fulfill his remaining term, which expired December 31, 2013. The current Supervisor was elected in November 2013 to a four-year term commencing on January 1, 2014.

Objective

The objective of our audit was to determine if Town officials provided adequate oversight of the Town's financial activities. Our audit addressed the following related question:

- Did the Board provide adequate oversight to ensure that financial activities were accurately recorded and reported in a timely manner and did it effectively manage the Town's financial condition?

Scope and Methodology

We examined the Town's accounting records and financial condition for the period January 1, 2013 through April 30, 2014. We extended our audit period back to 2012 to review selected financial operations and back to 2011 for our review of equipment leases.

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 is included in Appendix B of this report.

⁴ Such as a public beach and a playground

⁵ For purposes of this report, we will refer to this Supervisor as the former Supervisor and the appointed/newly elected Supervisor as the current Supervisor.

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Corrective Action**

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Financial Management

The Board is responsible for the Town's overall financial management, including monitoring and evaluating financial condition and developing long-term financial plans. It is essential that complete, accurate and timely accounting records are maintained to properly account for, report and evaluate the Town's financial condition and activities. When accurate records are not maintained, it can obscure the Town's true financial condition.

The Board has not provided adequate oversight to ensure that financial activities were accurately recorded and reported in a timely manner, and it has not effectively managed the Town's financial condition. Town officials were unable to determine the Town's true financial condition for each of the Town's funds because the accounting records and reports were inaccurate. Based on our analysis of all funds combined, the Town did not have enough cash to pay all of its bills at the end of fiscal years 2012 or 2013. As of December 31, 2013, the Town had a cash deficiency of about \$325,000, or 24 percent of the next year's budget. The former Supervisor did not provide sufficient oversight of the bookkeeper to ensure that the Town's records were reliable and to address the Town's cash flow needs. The bookkeeper used interfund loans and transfers to keep the Town operational but did not receive Board approval for most of the transactions and did not understand how to record them in the records. This resulted in misstatements which obscured the Town's true financial condition. In addition, the bookkeeper did not regularly reconcile the Town's bank accounts to identify errors in the records.

The Board did not fulfill its oversight responsibilities by performing a sufficient audit of the Supervisor's books and records. Also, the Board has not adopted a comprehensive multiyear financial and capital plan to adequately address the Town's long-term operational and capital needs. Town officials do not perform a formal needs assessment or cost-benefit analysis prior to acquiring highway equipment. In addition, we found no indication that the Board formally approved lease and lease-purchase agreements for two pieces of equipment that cost about \$272,000 over seven years, one of which does not get extensive use. Lastly, two of the Town's lease-purchase agreements do not comply with legal requirements, and the Town's deferral of some of the associated costs will require it to raise funds to make substantial final payments totaling about \$187,000 at the end of the contract periods.

Fiscal Stress

Fiscal stress is a judgment about the financial condition of a local government or school district that must take into consideration its

unique circumstances but can be generally defined as the inability to generate enough revenues within its current fiscal period to meet its expenditures (budget solvency). The Office of the State Comptroller’s Fiscal Stress Monitoring System (FSMS) evaluates local governments (counties, cities, towns and villages) and school districts, based on both financial and environmental indicators, to determine if these entities are in or nearing fiscal stress. The FSMS classified the Town as “susceptible to fiscal stress.” However, we determined that the Town’s financial condition was worse than indicated by the FSMS because the Town’s 2012 Annual Update Document (AUD), which was used to generate the Town’s FSMS score, was misstated.

Due to the poor condition of the accounting records (discussed in further detail in the section Supervisor’s Records), Town officials were unable to determine the Town’s true financial condition for each of the Town’s funds (general, highway, special districts and capital projects). As a result, we prepared a reconciliation of cash balances in aggregate and a reconstruction of the Town’s current liabilities and accounts receivable at the end of fiscal years 2012 and 2013. Based on our analysis, the Town did not have enough cash at each year end to meet its obligations. It had cash deficiencies of about \$140,000 at the end of 2012 and \$325,000 at the end of 2013, as shown in Figure 1.

Figure 1: Cash Position for All Funds		
	December 31, 2012	December 31, 2013
Adjusted Bank Balances – All Funds ^a	\$108,685	\$15,323
Held Checks	(\$202,955)	\$0
Outstanding Liabilities	(\$60,642)	(\$380,208)
Outstanding Receivables	\$14,752	\$39,325
Cash Deficiency	(\$140,160)	(\$325,560)
^a Cash in bank adjusted for routine outstanding checks. There were no deposits in transit at the end of 2012 or 2013.		

In 2012, when the Town began experiencing financial difficulties, the bookkeeper began to transfer moneys between bank accounts and between funds.⁶ The bookkeeper told us that she did this because the general and highway funds were running out of money. The bookkeeper told us that she repeatedly informed the former Supervisor of the Town’s financial difficulties, but he and the Board took little action to address the problem. In addition to transferring moneys between funds, the bookkeeper held checks for payment to various vendors because the Town did not have enough money in its bank accounts to pay all of its bills. From August through December 2012, the bookkeeper printed and held 31 checks totaling \$202,955, as follows:

⁶ See the section entitled “Supervisor’s Records” for additional information concerning the authorization and accounting for interfund transactions.

- A check totaling \$108,195 from the capital projects fund in August,
- Two checks totaling \$8,207 from the highway fund in October,
- Twenty-four checks totaling \$28,621 from all funds in November and
- Four checks totaling \$57,932 from all funds in December.

At the end of 2012, the Town had a cash deficiency of about \$140,000 for all funds combined because the Town's outstanding checks and liabilities exceeded the total cash and accounts receivable. Consequently, the Town had to use \$140,000 of its 2013 revenues (12 percent of the 2013 budget) to pay bills related to 2012.

Despite the Town's weak financial position at the end of 2012, the Board did not take any significant actions to curb spending or otherwise address the Town's financial condition in 2013. Although the bookkeeper did not print and hold outstanding checks similar to what she did in 2012, the Town delayed paying some of its bills because it did not have enough cash.⁷ In December 2013, the Board approved a resolution to issue a \$30,000 Tax Anticipation Note (TAN)⁸ to help make payroll, but this temporary cash inflow was not enough to pay the Town's other outstanding bills. The Town ended 2013 with an adjusted bank balance of approximately \$15,300 and a total cash deficiency of \$325,560, which was more than twice the amount of the cash deficiency at the end of the previous year. The cash deficiency at the end of 2013 represents 24 percent of the 2014 budget.

Board members told us that they were not aware of the extent of the Town's financial distress until we brought it to their attention. The Board has not reevaluated or modified its 2014 budget to reduce appropriations to address the shortfall at the end of the 2013 fiscal year. Further, it has not developed a formal plan to improve the Town's financial condition.⁹ Therefore, if these trends continue in 2014 and the Town spends the amount budgeted, it will most likely result in further fiscal decline and depletion of cash. Unless the Board takes the necessary steps to address the Town's fiscal stress and replenish

⁷ This contributed to the significant amount of outstanding liabilities at the end of 2013 (about \$380,000).

⁸ A TAN is a temporary source of cash borrowed in anticipation of the collection of taxes and assessments levied for the fiscal year. Generally, the proceeds must be used for the same purposes for which the taxes or assessments in anticipation of which the notes are issued must be used.

⁹ The Board appropriately did not apply any fund balance to finance the 2014 budget.

its cash and fund balances to a reasonable level, the Town's ability to provide services to its residents on an ongoing basis could be in jeopardy.

Supervisor's Records

The Supervisor should maintain complete and accurate accounting records for each fund to ensure the financial reports accurately reflect the Town's financial activity. It is important for the Supervisor to perform monthly bank-to-book reconciliations to ensure the timely identification and correction of differences between the Town's recorded cash balances and its bank cash balances. In addition, interfund loans and transfers must be accurately recorded in the accounting records to show the true financial position of each fund and special district. The Board must approve all interfund loans and transfers before they are made. If the Supervisor assigns duties to a bookkeeper, the Supervisor must provide sufficient oversight, guidance and training to the bookkeeper to ensure that the Town's records are maintained in a timely manner and are reliable.

Interfund Loans and Transfers – The Town has five primary funds: general, highway, two water district funds and a capital projects fund. As discussed previously, if one fund did not have enough cash to pay its bills, the bookkeeper transferred cash from another bank account or fund and used that money to pay some of the bills. Although the bookkeeper was experienced at recording routine revenue and expenditure transactions, she told us that she does not fully understand the difference between interfund loans and interfund transfers and she was not sure how to properly record these types of transactions. This resulted in misstatements in the Town's accounting records, which obscured the Town's true financial condition.

For example, during 2012, the bookkeeper recorded an \$80,364 interfund loan to the general fund by reducing the general fund's appropriated fund balance by this amount. She did not record an interfund receivable in the funds that loaned the general fund money. Further, at least \$14,000 of the amount recorded as the interfund loan was actually a bank transfer between general fund bank accounts, which was not truly an interfund loan. In addition, we found no evidence that the Board authorized these interfund loans, and loan repayments were generally not made by year-end as required by law.¹⁰

¹⁰ The Board minutes indicate the Board approved temporary interfund loans totaling \$36,200 from the water district to the general fund in July, August and September 2012. However, the other interfund loans made by the bookkeeper were generally not authorized by the Board. New York State General Municipal Law (GML) requires that all temporary interfund borrowings must be repaid as soon as funds are available, but no later than the close of the fiscal year in which the advance was made.

Furthermore, the bookkeeper transferred \$8,850 at the end of the 2013 fiscal year from the Arena joint activity that the Town has with the Town of Fine and recorded this as an interfund loan in the Town's accounting records. However, the Town has no authority to borrow from the Arena, and the Arena does not have any authority to loan to the Town. The Town paid this money back to the Arena in January 2014, shortly after receiving some of its tax revenues.

Bank Reconciliations – The Town uses 12 bank accounts for its various funds. The bookkeeper told us that bank reconciliations are her responsibility but no one reviews them, and no one periodically reviews the monthly bank statements and canceled check images (see Annual Audit section). Because the bookkeeper was not regularly reconciling the bank accounts, we performed our own reconciliations at the end of fiscal years 2012 and 2013 and compared them with the cash balances in the accounting records, as shown in Figure 2.

Figure 2: Bank Reconciliations		
	December 31, 2012	December 31, 2013
Total Adjusted Bank Balances Per Audit	(\$97,803)	\$15,322
Book Balance	\$105,200	\$10,631
Difference	(\$203,003)	\$4,691

- 2012 – The bookkeeper did not factor in approximately \$203,000 in outstanding checks that she printed in August, October and November 2012 and held in a drawer because the Town was experiencing financial difficulties. The bookkeeper posted journal entries in the accounting records to make cash per the accounting records agree with cash in the bank, not the adjusted bank balances.¹¹ As a result, the bookkeeper's adjusted cash balances were inaccurate and incorrectly reported to the Board on the Supervisor's December 2012 monthly report and the 2012 AUD.
- 2013 – Although the bookkeeper did not print and hold outstanding checks similar to what she did in 2012, we reviewed the adjusted cash per the bank at the end of 2013 and found that the Town understated its total cash in the accounting records by \$4,691. The general fund, water district and trust and agency cash accounts combined were overstated by approximately \$24,000, while highway cash was understated by approximately \$28,700.

¹¹ Adjusted bank balances factor in deposits in transit and outstanding checks that have not yet cleared the bank.

Financial Reporting

Good business practices dictate that the Supervisor submit monthly financial reports to the Board. These reports should contain balance sheet account (asset, liability and fund balance) balances¹² and detailed year-to-date budget-to-actual comparisons of revenues and expenditures for each fund. It is also a good practice for the Board to review monthly bank reconciliations and statements. Complete and accurate monthly reports provide essential financial information that the Board can use to monitor the Town's financial operations and serve as reliable sources of financial data to be used in the development and adoption of reasonable budgets.

In addition, GML requires the Town Supervisor to annually file the AUD with OSC and the Clerk within 60 days from the close of its fiscal year. In the event the Town anticipates missing the deadline, Town officials can request an extension that allows the Town up to 120 days to file the report. The financial information presented in the AUD should be accurate and supported by the Town's accounting records. The AUD is an important fiscal tool that provides the Board with necessary information to monitor Town operations and provides other interested parties with a summary of the Town's financial activities.

The former and current Supervisors provided the Board with monthly reports showing revenue and expenditure budget-to-actual results, receipts and disbursements for the month and cash balances for some bank accounts. However, these reports did not include all bank accounts such as the accounts payable checking account and the capital projects fund checking account. Further, they did not routinely include balance sheet accounts or bank reconciliations. Board members told us that they were not aware of the extent of the Town's financial distress until we brought it to their attention. The lack of complete and accurate financial reports likely contributed to the Board members' lack of awareness of the Town's overall financial condition.

In addition to cash being overstated by about \$203,000 in the 2012 AUD (see the section titled Supervisor's Records), we found that the 2012 AUD did not agree with the accounting records and the bookkeeper had no support for some of the numbers in the report.

¹² Balance sheet accounts help substantiate the Town's financial condition at any given time. Additionally, these accounts, to the extent they are accurate, allow the Board to assess cash flow and the Town's ability to pay liabilities (the bookkeeper records liabilities in the records when vendor invoices have been processed but not yet paid).

For example:

- General fund accounts payable and water rents receivable were \$35,255 and \$14,752 higher, respectively, on the AUD than what was recorded in the accounting records.
- Due from other funds in the general fund was \$10,719 less on the AUD than what was recorded in the accounting records.
- Due to other funds in the highway fund was \$18,673 higher on the AUD than what was recorded in the accounting records.
- Restricted fund balance for the general fund was \$66,164 higher on the AUD than in the accounting records.

The Town received a 60-day extension which extended the due date for the 2013 AUD to May 1, 2014. As of May 28, 2014, the current Supervisor had not filed the 2013 AUD. The bookkeeper has been working on the report and informed us that she is trying to get the records in order before submitting it.

Annual Audit

New York State Town Law requires the Board to annually audit, or provide for the audit of, the records and reports of all Town officers and employees who received or disbursed moneys on behalf of the Town in the preceding fiscal year.¹³ An annual audit helps the Board fulfill its fiscal oversight responsibilities by providing it with an opportunity to assess the reliability of the Town's books, records and supporting documents. It also serves to identify conditions that need improvement and provides useful information to help the Board oversee the Town's financial operations. A thorough annual accounting provides the Board with an added measure of assurance that the Town's financial records and reports contain reliable information on which to base management decisions.

The Board did not complete a sufficient audit of the Supervisor's books and records. Board members told us that the Board performs the annual audit by signing the last page of the bookkeeper's manual ledger sheets that she uses to help her maintain the accounting records. The Board did not review printouts of the bookkeeper's computerized records, bank reconciliations or the bank statements and canceled check images. Further, the Board did not attempt to perform any comparisons between bank activity and the records to try to determine the accuracy of the records. Had the Board performed

¹³ The Board may perform the annual audit or it can engage the services of a certified public accountant or public accountant to perform the annual audit within 60 days of the close of the fiscal year.

a more sufficient annual audit, it may have been able to determine that bank accounts were not reconciled and cash balances in the accounting records were inaccurate. The Board then could have initiated corrective action sooner.

Long-Term Planning

Town officials should prepare comprehensive, long-term operational and capital plans to estimate the future costs of ongoing services and future capital needs. Effective plans project operating and capital needs and financing sources over a three- to five-year period. Any long-term financial plans should be monitored and updated on an ongoing basis to ensure decisions are guided by the most accurate information available. To compare projections to actual activities and make needed adjustments, relevant, timely and accurate financial data must be available. Planning on a long-term basis allows Town officials to identify revenue and expenditure trends, set long-term priorities, and assess the impact and merits of alternative approaches to financial issues.

Town officials have not developed comprehensive, long-term capital and operational plans and have no other mechanism to address the Town's long-term operational needs. Given the poor condition of the records, it would be difficult for the Board to develop a reliable long-term financial plan at this time. However, the Board should start development of a long-term plan as it works to get the financial records into a useable condition. Once the records are useable, the Board should continue to refine the plan as a guide toward improved financial condition.

Equipment Replacement

In conjunction with developing a capital plan, it is recommended that the Board also adopt an equipment replacement policy¹⁴ to establish guidelines for the acquisition, use, replacement and disposal of Town equipment. The policy should require that, prior to acquiring equipment, a needs assessment be conducted specifying the proposed use of the new equipment and requiring a periodic review of its utilization. The policy also should specify the process for determining when a piece of equipment must be replaced, how it will be disposed of and the most cost-effective manner of obtaining a replacement, if desired. Options available for obtaining equipment include purchase contracts, leases and lease-purchase (installment purchase) agreements. However, municipal statutes and regulations require governing boards to follow established procedures prior to exercising any of these options.

¹⁴ Refer to OSC publication, *Establishing an Effective Fleet Management System*

For example, OSC regulations¹⁵ prohibit governing boards from adopting a resolution authorizing an installment purchase contract unless an evaluation of financing alternatives is prepared. The evaluation must set forth the financing alternatives considered (e.g., use of capital reserve fund moneys, issuing bonds or notes) and the criteria used to evaluate these alternatives. The evaluation specifically must include a comparison of the estimated total cost of the equipment (inclusive of the cost of financing) if financed by the issuance of bonds or notes and the total cost of the equipment (inclusive of the cost of financing), if financed pursuant to an installment purchase contract. In addition, the law¹⁶ requires, among other things, that the governing board authorize an installment purchase contract by resolution, the contract contain an “executory clause” as set forth in the law,¹⁷ the authorization to enter into an installment purchase contract be subject to referendum requirements in certain circumstances and the total of all periodic payments (which include both principal and interest) throughout the term of a lease-purchase agreement be substantially level or falling. According to OSC regulations, the Board’s resolution must refer to the evaluation of financing alternatives and, after taking into account the evaluation, set forth the specific reasons why the Board has determined that it is in the Town’s best interest to finance the equipment purchase pursuant to an installment purchase contract.¹⁸

The Board and Highway Superintendent have not established a highway equipment replacement policy or conducted a needs assessment to determine if the Town’s highway equipment is being used effectively. In addition, the Board has not complied with required statutes and regulations related to the manner in which some equipment has been obtained. As a result, the Town may have missed an opportunity to achieve a savings by considering other alternatives, such as renting equipment on an as needed basis, sharing equipment with other neighboring municipalities or using other more cost-effective methods of financing.

¹⁵ New York Codes, Rules and Regulations (NYCRR), Title 2, Part 39

¹⁶ GML, Section 109-b

¹⁷ The executory clause must state, among other things, that the “contract is deemed executory only to the extent of monies appropriated and available for the purpose of the contract, and no liability on account thereof shall be incurred by the political subdivision beyond the amount of such monies,” and that “It is understood that neither this contract nor any representation by any public employee or officer creates any legal or moral obligation to appropriate monies or make monies available for the purpose of the contract.” (GML, Section 109-b[2][f])

¹⁸ NYCRR, Title 2, Part 39.3

Figure 3 summarizes the lease-purchase,¹⁹ lease and purchase agreements executed by the Town from January 2012 through the end of our audit period.

Figure 3: Highway Equipment					
Date Entered Into	Equipment	Type of Agreement/Term	Annual Cost	Final Payment	Total Cost
4/2012	2012 Tractor/Mower/Sweeper	Lease/7 Years	\$8,038	\$0	\$56,266
8/2012	2012 Excavator	Lease Purchase/7 Years ^a	\$11,712	\$134,062	\$216,046
7/2013	2014 Snow Plow	Purchase/5 Years ^b	\$43,588	\$0	\$217,940
2/2014	2014 Loader	Lease Purchase/7 Years	\$9,098	\$52,480	\$116,166
Totals			\$72,436	\$186,542	\$606,418
^a First payment due annually beginning in August 2013 and ending with a \$134,062 final payment in 2020. The interest rate for this lease purchase is 5.12 percent. ^b The Town issued a statutory installment bond to finance this purchase. The interest rate on the bond is 2.99 percent.					

The Board approved the purchase (and related debt) of the 2014 snow plow and the lease-purchase of the 2014 loader. However, we found no indication in the Board minutes that the Board formally approved the lease agreement for the 2012 tractor/mower/sweeper and the lease-purchase agreement for the 2012 excavator, which cost about \$272,000 over seven years.²⁰

In addition, there was no evidence that Town officials had conducted the required analysis prior to entering into the lease-purchase agreements for the excavator or loader to determine if this option was in the Town's best interest. Further, the language contained in the lease-purchase agreements is not consistent with legal requirements related to lease-purchase agreements. For example, although the loader agreement included a "non-appropriation" provision, neither agreement contained the required "executory" clause. In addition, the agreements provide for the Town to make substantial payments at the end of the lease-purchase terms – \$134,062 will be due for the excavator in 2020 and \$52,480 will be due for the loader in 2021. While the Town is making lower annual payments over the term of the agreements, it will be paying more interest costs overall because of the large final payment at the end of the period. Town officials will need to factor these required payments into their future long-term plans so the Town will have enough cash to make the payments when they become due.

Furthermore, the Highway Superintendent and current Supervisor informed us that, over the past two years (2012 and 2013), the excavator has been operated 360 hours. Had Town officials performed

¹⁹ Purchases the Town financed by the issuance of debt.

²⁰ During our exit discussion, Town officials presented us with a letter signed by three Board members stating that they approved these agreements.

a needs assessment and cost-benefit analysis prior to entering into this agreement, they may have been able save money by considering other options. For example, renting this type of equipment on an as-needed basis or renting it pursuant to an inter-municipal cooperation agreement with neighboring municipalities – rather than paying \$216,000 for something that is used sporadically – could be more cost-effective options.

Lastly, beginning in 2015, annual payments for the snow plow and loader, which total about \$52,680, are due in January of each year. This is when cash is normally at its lowest amount for most towns, so these required payments will likely further exacerbate the Town's already weak cash position. Board members told us that they most likely would not have approved these purchases if they knew the Town's true financial condition. Additionally, had the Board conducted a needs assessment prior to approving these agreements, it may not have committed the Town to these purchases, which total over \$334,000 over the life of the two agreements.

Recommendations

The Supervisor and Board should:

1. Take immediate action to address the Town's weak financial condition. This could include limiting Town expenditures to the extent possible in the remainder of 2014 and including provisions in the 2015 budget to address any cash deficiencies projected for the end of 2014.

The Supervisor should:

2. Ensure that the bookkeeper has the necessary training to accurately maintain the Town's records and reports.
3. Oversee the bookkeeper's work to ensure that the Town has complete, accurate and up-to-date accounting records.
4. Review the bookkeeper's monthly bank account reconciliations for all accounts and ensure that copies of the bank reconciliations and bank statements are included in the monthly report to the Board.
5. Along with the bookkeeper, ensure that any reconciliation differences are promptly resolved.
6. Ensure that monthly financial reports presented to the Board are complete and accurate.
7. Prepare and file the annual AUD with OSC in a timely manner with the bookkeeper's help.

The Board should:

8. Conduct an annual audit of the Supervisor's records or engage an independent auditor to conduct the audit.
9. Develop long-term financial and capital plans that project operating and capital needs and financing sources for a three- to five-year period. These plans should be monitored and updated on an ongoing basis. These plans should include actions needed to eliminate the Town's financial deficiencies.
10. Approve all Town lease and lease-purchase contracts and ensure that the approval is appropriately documented in the Board minutes.
11. Work with the Highway Superintendent to establish a highway equipment replacement policy and conduct a needs assessment to determine if the Town's highway equipment is being used effectively.
12. Consider all of the options available to the Town prior to entering into leases, purchases or lease-purchase agreements for equipment, including the impact each agreement has on the Town's cash flow.
13. Ensure that an analysis of alternative financing options is performed prior to entering into a lease-purchase contract. The Board should consult with legal counsel to ensure that the terms and conditions set forth in the agreement are consistent with those required by law.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

At the exit conference, Town officials provided us with a signed letter from the Board indicating that the Highway Superintendent did have Board approval for equipment purchases but they did not document such approval in the meeting minutes. We included this letter with the Town officials' response. Based on this information, we adjusted the report to reflect that the Board did not formally approve these equipment purchases.

TOWN OF CLIFTON
7171 St. Hwy 3, Cranberry Lake, NY 12927

SUPERVISOR
CHARLES HOOVEN

PHONE: (315)848-2821
FAX: (315)848-2369



Tax I.D. # 15-6000903

Office Hrs. 8am-4:00pm M-F

October 1, 2014

RE: Response to the Town of Clifton Financial Management Report of Examination for Period Covering January 1, 2013 to April 30, 2014

Office of the State Comptroller
110 State Street
Albany, NY 12236-0001

The objective of your audit was to determine if Town officials provided adequate oversight of the Town's financial activities for the period January 1, 2013 through April 30, 2014. Your audit results were the Board has not provided adequate oversight of the Town's financial activity. Hence, due to the poor condition of financial reports and records, Town officials were unable to determine the Town's true financial condition. The Town Board agrees with this finding.

The bookkeeper never received the guidance required to address the Town's cash deficiencies. Because of this she did what she could to keep the Town operating, which resulted in interfund transactions. She realizes her lack of experience in regard to interfund transactions and that this lack of knowledge resulted in misstatements in the Town's accounting records. She did, however, repeatedly inform the prior Supervisor and the Board of the lack of funds to cover payroll and pay bills.

Corrective actions:

Immediate corrective actions have been and will be put in place with the intention of improving the Town's financial condition. Provisions are being made in the 2015 budget to address any cash deficiencies projected for the end of 2014. The town is obtaining a \$50,000 T.A.N. (Tax anticipation note) to provide for the Highway's deficient finances for the end of the year. That \$50,000 T.A.N. has been addressed in the Tentative 2015 Budget. The following actions are also being done:

1. The Supervisor and Board have taken immediate action to limiting Town expenditures to the extent possible for the remainder of 2014. Monthly invoices are each personally audited by the Supervisor and all of the Town Board. Discussions have taken place with the Highway Superintendent regarding ways to cut down expenses for the remainder of the year.
2. Necessary training is being done for the bookkeeper to ensure the Town's record keeping.

3. The Supervisor is overseeing the bookkeeper's work. Reports and balances are checked often.
4. Monthly bank reconciliations and bank statements are being reviewed and included in the monthly report to the Board.
5. Supervisor ensures that any reconciliation differences are promptly resolved.
6. Supervisor ensures that the monthly financial reports presented to the Board are complete and accurate.
7. Supervisor is working with the bookkeeper in preparing and filing the annual AUD with the Comptroller's Office. The only thing that remains to be done at this time with the AUD is the reporting of the B.A.N.s and T.A.Ns. The bookkeeper is waiting for guidance from the comptroller's office for this information.
8. The Town Board ensures an annual audit of the Supervisor's records will be done. Reports will be considered closely, making sure all ending balances are accurate and complete.
9. Long-term financial and capital plans that project operating and capital needs and financing sources for a three to five year period will be developed and monitored.
10. The Town Board will be more involved in all lease and lease-purchase contracts, making sure their approval is part of the procedure and that the approval is appropriately documented in the Board minutes.
11. The Town Board will work with the Highway Superintendent to establish a highway equipment replacement policy and conduct a needs assessment to determine if such is being effectively used. A Board member will be assigned to work with the Highway Superintendent personally and then will report back to the Board the progress being made.
12. The Town Board will consider all of the options available to the Town prior to entering into leases, purchases or lease-purchase agreements for equipment, including the impact each agreement will have on the Town's cash flow.
13. The Town Board will ensure that an analysis of alternative financing options be performed prior to entering into a lease-purchase contract, consulting with legal counsel to ensure the terms and conditions set forth in the agreements are consistent with those required by law.

Sincerely,

Charles Hooven
Town Supervisor

CH:ca



Town of Clifton Highway Department

66 River Road
Newton Falls, NY 13666

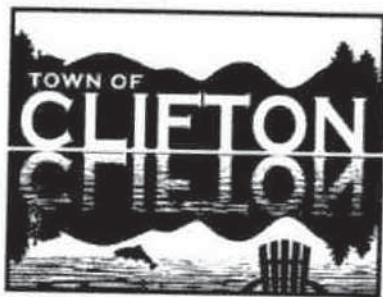
KELLY SMITH
Highway Superintendent
315-848-2782

September 16, 2014

Response to the Town of Clifton Financial Management Report of Examination for Period Covering January 1, 2013 to April 30, 2014:

Stated within this audit was that there was no indication found where the Board formally approved lease and lease-purchase agreements for two pieces of equipment. Whereas there were errors in the process of leasing this equipment, there has never been any time in which board approval had not been given for any purchase/lease of equipment. I am enclosing a signed statement in which the board members attest to this fact. I have always approached the board for board approval on any such activity. The fact that nothing was in the minutes verifying board approval for two pieces of equipment was not due to my not getting board approval. I cannot be blamed for the previous town clerk's lack in getting these necessary details in the minutes.

Another issue was with the hours of usage on the excavator. This excavator was fairly new at the time of the audit and because of that showed a minimal amount of hours used. Since then, it has been fully put to use and the hour usage has doubled. This excavator is not used just for the highway department. It is also shared by the two water districts and the sewer district. These districts are essentially sharing the cost by the application of hourly usage expenses which are reimbursed to the highway department. Where there has not been any actual cost-benefit analysis done on this excavator at the time, the town board was approached by me, the highway superintendent - The need was evaluated at that time and approval was given. Upon a recent checking of the expense of renting this machinery as needed, it was determined that the cost of renting the equipment for amount of time needed exceeded the cost of leasing. I will be working closely with the Town Board during our Budget process to see what can be done so to save the town money on this piece of equipment.



Town of Clifton Highway Department

66 River Road
Newton Falls, NY 13666

KELLY SMITH
Highway Superintendent
315-848-2782

CORRECTIVE ACTIONS:

As corrective actions, I will be working closely with the town board and supervisor with respect to any future highway decisions. It is our intent to implement an Equipment Replacement Program as the auditors recommended. All of our highway equipment is now up to date, and although there are no plans at present for any future purchases/leases, in the future it is our intent to comply with all legal requirements and procedures:

1. Obtaining prior board approval for any purchase/lease
2. Assessing cost-benefit prior to acquiring equipment
3. Having proper resolutions and/or referendums as required by law
4. Having paperwork signed by the proper individuals
5. Making sure proper documentation of such is in the minutes
6. Making sure contracts are actual leases where necessary and clear in intent and wording and that these agreements comply with legal requirements.

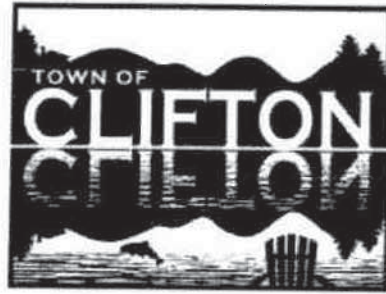
Sincerely,

Kelly Smith/Highway Superintendent

TOWN OF CLIFTON
7171 St. Hwy 3, Cranberry Lake, NY 12927

SUPERVISOR
CHARLES HOOVEN

PHONE: (315)848-2821
FAX: (315)848-2369



Tax I.D. # 15-6000903

Office Hrs. 8am-4:00pm M-F

September 4, 2014

Office of the State Comptroller

This letter is in response to the Draft of the Town of Clifton's Financial Management Report of Examination for the period covering January 1, 2013 to April 30, 2014.

The report stated that Highway Superintendent Kelly Smith had made purchases of a 2012 tractor/mower/sweeper and excavator without obtaining prior board approval. This, in fact, is not the case. He did have board approval for his purchases. This approval was apparently not correctly shown in the board minutes. Whereas there is admittance to improper procedures being done, board approval was given for these purchases of equipment.

Sincerely,

Julia Lanphear - *Councilperson*

Mary Zuhlsdorf - *Councilman*

Charles Trembley - Board Member

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the Town's accounting records and financial condition and determine if the Board provided adequate oversight of these areas. To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed Town officials responsible for financial oversight and maintaining accounting records and reviewed Board minutes to obtain an understanding of the Town's policies and procedures.
- We reviewed the Town's financial information and the available accounting records, including the general ledger, journal entries, bank reconciliations and budget reports.
- We interviewed the bookkeeper and reviewed the 2012 AUD to determine if the annual financial report was accurate, complete and filed on a timely basis.
- We compared cash balances reported on the 2012 AUD to cash balances per the accounting records and reconciled cash balances. Due to the inaccuracy of the accounting records and AUD, we performed our own bank reconciliations to determine the adjusted bank balances at the end of 2012 and 2013.
- We reviewed the accounting records for major balance sheet accounts, interviewed officials and reviewed supporting documentation to determine if the amounts reported were accurate and supported.
- We reviewed the year-end voucher detail reports for 2012 and 2013 by tracing to the actual voucher/claim packet to determine if accounts payable were valid. We then reviewed January through April abstracts/vouchers for 2013 and 2014 to identify any additional bills paid in the subsequent year that should have been recorded as liabilities at year-end.
- We reviewed the Supervisor's monthly reports for October and December 2012 and December 2013 to determine if they were accurate and complete.
- We interviewed Board members to obtain an understanding of their annual audit process and to determine if they had prepared any long-term financial plans.
- We interviewed Board members and the Highway Superintendent about equipment leases and purchases entered into by the Town from 2012 to present.

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

APPENDIX C

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

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathaalie N. Carey, Assistant Comptroller

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