



Town of Hornellsville

Financial Management and Town Clerk Operations

Report of Examination

Period Covered:

January 1, 2012 — August 31, 2013

2014M-21



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 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 Hornellsville, entitled Financial Management and Town Clerk Operations. 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 Hornellsville (Town) is located in Steuben County (County) and has a population of about 4,200. The Town is governed by an elected five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four members. The Board is responsible for the general management and control of Town finances. The Supervisor is the chief executive officer and chief fiscal officer. The elected Town Clerk (Clerk) serves as Clerk to the Board and issues and collects fees for dog licenses, permits, copies, certificates and landfill tickets.

The Town's budgeted appropriations for the 2013 fiscal year total \$1.8 million, funded mainly from real property taxes, sales tax, PILOT¹ revenue, State aid and departmental fines and fees. The Clerk deposited cash receipts of about \$8,600 for 2012.

Scope and Objectives

The objectives of our audit were to review the Board's financial management and evaluate the operations and financial practices of the Clerk's office. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of the Town's financial operations?
- Did the Clerk accurately record, deposit, disburse and report all moneys collected in a timely manner?

We examined the Town's fiscal operations from January 1, 2011 through December 31, 2013 and the Clerk's records and reports for the period January 1, 2012 through August 31, 2013.

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.

Audit Results

Due to the Board's inadequate oversight, the Town's financial condition has deteriorated and cash resources are not properly safeguarded.

The Board appropriated fund balance to help finance operations, which resulted in the combined fund balance of the town-wide general and highway funds declining by \$188,446 (65 percent) from the

¹ Payments in lieu of taxes

beginning of the 2011 fiscal year through the end of 2013. The repeated appropriation of fund balance drove the year-end total of unassigned funds to dangerously low levels, leaving the Town with an insufficient financial cushion for unforeseen events or cash flow. While the combined town-outside village general and highway funds showed an increase in fund balance during the same period, this was due solely to a one-time, unbudgeted sale of equipment. The continued reliance on fund balance to make up for insufficient recurring revenues is not sustainable. Further, the Board has not developed a written multiyear financial plan to identify, prioritize and strategically address future financial issues. The Board also did not ensure annual audits were performed of the Clerk's or Justice Court's operations, as required by law. The lack of Board oversight and planning, if not corrected, is likely to cause the Town's financial condition to decline further.

Additionally, the absence of Board-adopted cash receipt and disbursement policies and procedures contributed to a poor control environment in the Clerk's office. As a result, cash receipts are not adequately safeguarded and the risk of fraud and theft is high. The Clerk did not issue prenumbered duplicate receipts for all money collected and did not deposit money intact (in the same form as received) or in a timely manner. In addition, the Clerk did not maintain a cash book that chronologically recorded all individual receipts on a daily basis, and did not perform a monthly reconciliation of cash with the amount in the bank and related liabilities. Finally, the Clerk and her former Deputy inappropriately exchanged personal checks for cash from the Clerk's cash receipts on hand. These control deficiencies place the Town's cash resources at an increased risk of mismanagement, loss or theft.

Comments of Town 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 disagreed with our findings and recommendations, and indicated they have taken limited corrective action. Appendix B contains our comments regarding issues raised in the Town's response letter.

Introduction

Background

The Town of Hornellsville (Town) is located in Steuben County and has a population of about 4,200. The Town is governed by an elected five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four members. The Board is responsible for the general management and control of Town finances. The Supervisor is the chief executive officer and chief fiscal officer. The elected Town Clerk (Clerk) serves as Clerk to the Board and issues and collects fees for dog licenses, permits, copies, certificates and landfill tickets.

The Town includes the Villages of Arkport and North Hornell and a portion of the Village of Almond.² The Town maintains a town-wide (TW) general and TW highway fund, and a town-outside-village (TOV) general and TOV highway fund. The TW funds are supported by a tax base encompassing the entire Town, including the villages/portion of village included within its boundaries. The TOV funds are supported by a tax base that encompasses only the part of the Town that lies outside the villages.

The Town's budgeted appropriations for the 2013 fiscal year totaled \$1.8 million, which were funded mainly by real property taxes, sales tax, PILOT³ revenue, State aid and departmental fines and fees. The Clerk deposited cash receipts of about \$8,600 for 2012.

Objectives

The objectives of our audit were to review the Board's financial management and evaluate the operations and financial practices of the Clerk's office. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of the Town's financial operations?
- Did the Clerk accurately record, deposit, disburse and report all moneys collected in a timely manner?

Scope and Methodology

We examined the Town's fiscal operations January 1, 2011 through December 31, 2013 and the Clerk's records and reports for the period January 1, 2012 through August 31, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on

² The remainder of the Village of Almond lies within the Town of Almond in Allegany County.

³ Payments in lieu of taxes

such standards and the methodology used in performing this audit is included in Appendix C of this report.

**Comments of
Town Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally disagreed with our findings and recommendations, and indicated they have taken limited corrective action. Appendix B contains our comments regarding issues raised in the Town's response letter.

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 interests of the Town and the taxpayers that fund its operations. This responsibility requires Board members to balance the level of services desired and expected by Town residents with the ability and willingness of the residents to pay for such services. As a result, the Board must adopt structurally balanced budgets for all operating funds that provide for sufficient revenues to finance recurring expenditures. As a part of the budgeting process, fund balance may be appropriated as a means to reduce the tax levy on residents. However, a reasonable level of remaining, unassigned fund balance should be maintained as a cushion for unforeseen expenditures or revenue shortfalls. Continuous use of fund balance to finance recurring operating expenditures reduces its availability as a financial safety net and will eventually exhaust it. Monitoring the availability and use of fund balance to cover recurring expenditures – along with adopting structurally balanced budgets that provide for recurring revenues to finance recurring expenditures – is a critical part of the Board’s budgeting responsibilities.

The Board is not properly overseeing the Town’s financial operations. As a result, the Town’s financial condition has declined over the last several years. In addition, the Board has not adopted or developed a written multiyear financial plan to identify, prioritize and strategically address future financial issues.

Financial Condition

Although operating deficits can sometimes be planned by prudently using surplus fund balances to finance operations, persistent and recurring operating deficits are usually indicative of structurally imbalanced budgets and are an early indicator of financial stress. Therefore, local governments must adopt budgets that are structurally balanced with reasonable estimates for revenues and appropriations, and must continually monitor the budget and fund balance levels to ensure that sufficient cash flow is maintained to fund operations.

Over the last three years, the Board has routinely relied on appropriated fund balance to finance TW and TOV operations. The Board continually adopted budgets that did not provide sufficient revenues to fund expenditures. As a result of these planned operating deficits,⁴ the unassigned fund balance remaining at year end in the TW funds is not sufficient to cover appropriations budgeted for 2014 and the

⁴ A planned operating deficit occurs when a board intentionally adopts a budget in which appropriations exceed budgeted revenues, with the difference to be made up by the appropriation of unassigned fund balance.

TOV funds have just \$7,182 as a financial cushion, leaving the Town vulnerable to unforeseen financial circumstances. Additionally, if the depletion of fund balance continues, the Town will not have sufficient resources to sustain the cost of operations in future years. As a result, Town officials may need to find other sources of revenue and/or reduce appropriations (cut services).

Town-Wide General and Highway Funds – The combined TW fund balance decreased by \$188,446, or 65 percent, over the last three years. This decrease resulted from the Board consistently increasing appropriations without sufficient revenues, relying on appropriated fund balance to bridge the gap and finance operations each year.

Table 1: Fund Balance – Combined Town-Wide Funds			
	2011	2012	2013
Beginning Fund Balance	\$288,150	\$236,617	\$182,218
Operating Deficit	(\$51,533)	(\$54,399)	(\$82,513)
Ending Fund Balance	\$236,617	\$182,218	\$99,704
Less: Restricted Funds ^a	\$27,255	\$37,269	\$47,284
Less: Appropriated for Ensuing Year	\$170,000	\$123,000	\$62,000
Unassigned Fund Balance at Year End	\$39,362	\$21,949	(\$9,579)
^a The Town also had a stream bank reserve totaling \$10,000 as of December 31, 2012 that was improperly included in the capital project fund instead of the TW funds.			

The Board continued this structurally imbalanced budgeting strategy when developing its 2014 budget. On September 10, 2013, we reviewed the tentative budget for 2014. The Board estimated revenues of \$494,880 and appropriations of \$596,880, initially intending to appropriate \$102,000 of fund balance from the TW funds, which would have depleted fund balance to an estimated deficit of \$19,723. We discussed this issue with the Supervisor, and the tentative budget was revised to appropriate \$62,000 of fund balance, instead of \$102,000, from the TW funds. Even with this adjustment, the actual 2013 year-end operating deficit of \$82,513 did not leave enough unassigned fund balance remaining to cover appropriated funds and to provide a financial cushion for unexpected events and cash flow.

Town-Outside-Village General and Highway Funds – The fund balance of the TOV general fund has consistently decreased over the last three years – from \$28,288 at the beginning of 2011 to \$354 at the end of 2013 – until it was almost completely exhausted because the Board appropriated fund balance to finance operations each year. The fund balance of the TOV highway fund would have been similarly depleted if not for an unbudgeted sale of equipment in 2012 which provided an influx of cash. However, this was a one-time revenue

source; without recurring sources of revenue to finance recurring expenses, the TOV highway fund cannot sustain operations.

The tentative budget for 2014 included appropriating fund balance of \$121,500 for the two TOV funds, which would have reduced their combined fund balance to \$17,147 based on numbers available as of September 2013. After we discussed our concerns with the Supervisor, the tentative budget was revised to reduce the appropriated fund balance to \$80,000. Even with this revision, at December 31, 2013 the TOV funds had a total \$7,182 in unassigned fund balance for unforeseen expenditures or revenue shortfalls in 2014.

Table 2: Fund Balance – Combined Town-Outside-Village Funds

	2011	2012	2013
Beginning Fund Balance	\$81,057	\$30,757	\$159,554
Operating Surplus (Deficit)	(\$50,300)	\$128,797 ^a	(\$72,372)
Ending Fund Balance^b	\$30,757	\$159,554	\$87,182
Less: Appropriated for Ensuing Year	\$32,000	\$126,000	\$80,000
Unassigned Fund Balance at Year End	(\$1,243)	\$33,554	\$7,182

^a The operating surplus resulted from one-time revenue from the sale of equipment totaling \$144,880.

^b The Town did not properly account for the equipment and roads reserve in the TOV funds, instead accounting for it in the capital project fund. The balance of the reserves as of December 31, 2012 were \$56,877 and \$49,190, respectively.

The Town's total unrestricted fund balance for the four combined TW and TOV funds declined by 49 percent (from \$369,207 to \$186,886) from the beginning of the 2011 fiscal year to the end of the 2013 fiscal year. If the Town uses all the appropriated fund balance in 2014 as budgeted, at the end of 2014 the four combined funds will have not have any unrestricted fund balance available.

The depletion of those funds will significantly impair the Town's financial flexibility and cause future cash flow problems. Town officials stated they appropriated fund balance to keep the tax levy stable. However, the routine reliance on fund balance to help finance the cost of operations – instead of structurally balanced budgets that include sufficient recurring revenue sources – is not sustainable. Further, with the recently enacted Real Property Tax Cap Law, Town officials will be limited in their ability to raise taxes unless the Board overrides the tax cap.

Multiyear Financial Planning

Multiyear financial planning is a vital tool for local governments to improve financial operations. Planning on a multiyear basis allows Town officials to identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. It also allows them to assess the impact and merits of

alternative approaches to address financial issues, such as the use of fund balance to finance operations and the accumulation of money in reserve funds. Any long-term financial plan should be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board has not developed a written multiyear financial plan. Such a plan would be a useful tool for the Board to address the Town's declining fund balances and to plan for and finance improvements. In developing a plan, the Board must address the amount of fund balance available for appropriation to reduce ensuing years' taxes, while maintaining an amount of reasonable unassigned fund balance to provide a cushion for unforeseen expenditures or revenue shortfalls.

Annual Audit

Town Law requires the Board to perform an annual audit of the books and records of any official or employee who receives or disburses cash, within 20 days after the year end, unless the Town has planned an annual audit by a public accountant. An annual audit provides the Board with the opportunity to monitor financial records and procedures. The audit of these records and reports is an important internal control function providing independent verification that the records are maintained in accordance with established procedures, transactions are properly recorded and cash is properly accounted for.

The Board did not perform annual audits of the records and reports of the Clerk or Justices. Instead, the bookkeeper annually presented the Board with a reconciliation of moneys deposited and disbursed by the Clerk and Justices. Therefore, the Board's ability to monitor the Town's financial operations is diminished. If the Board had performed this fundamental duty it may have identified the recordkeeping inadequacies in the Clerk's office and taken corrective action sooner (see the following section, Town Clerk Operations).

Recommendations

1. The Board should address the declining fund balances in the TW and TOV operating funds and adopt structurally balanced budgets with less dependence on using fund balance to finance operations.
2. The Board should develop a comprehensive multiyear financial plan to establish the goals and objectives for funding long-term operating needs.⁵ The plan should be monitored and updated on an ongoing basis.

⁵ 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 the OSC publication *Local Government Management Guide - Multiyear Financial Planning* (<http://www.osc.state.ny.us/localgov/pubs/lmg/multiyear.pdf>).

3. By January 20 of each year, the Board should conduct an effective audit of the records and reports of the Clerk and Justices or hire an independent auditor to do so, as required by law. For guidance on conducting annual audits, Town officials should refer to the OSC publication *Local Government Management Guide – Fiscal Oversight Responsibilities of the Governing Board*.

Town Clerk Operations

The Clerk is responsible for receiving, recording, depositing, disbursing and reporting all moneys collected in the Clerk's office. It is essential to issue prenumbered duplicate receipts, accurately record transactions, deposit receipts intact and in a timely manner, and remit moneys to appropriate parties in a timely manner. The Clerk collects cash receipts for a variety of services provided by the Town, County and State, including fees for solid waste disposal, building permit fees, birth and/or death certificates, marriage licenses and dog licenses. Although the Clerk is elected, the Board is required to audit the Clerk's books and records on an annual basis.

The absence of Board-adopted cash receipt and disbursement policies and procedures contributed to a poor control environment in the Clerk's office. As a result, cash receipts were not adequately safeguarded, increasing the risk of fraud and theft. The Clerk did not issue prenumbered duplicate receipts for all moneys collected and did not deposit them intact or in a timely manner. In addition, the Clerk did not maintain a cash book to chronologically record all individual receipts on a daily basis and did not conduct a monthly reconciliation of cash with the amount in the bank and related liabilities. Finally, the Clerk and her former Deputy inappropriately exchanged personal checks for cash from the Clerk's cash receipts on hand. The Board was unaware of these inappropriate practices because they did not provide adequate oversight of the Clerk or complete an annual audit of the Clerk's records.

Receipts and Records

Properly recording the amount and form of payment received (i.e., cash or check) and issuing a duplicate receipt enables Town officials to follow transactions from the point of collection through the accounting records to bank deposits and monthly reports. Moreover, General Municipal Law requires that duplicate receipts be issued where no other form of documentation is available to evidence collections. The Clerk must also deposit all moneys collected intact so that Town officials can trace cash receipts from the accounting records to the bank statements to ensure that all Town moneys collected are properly deposited. Town Law requires that Clerk moneys collected be deposited within three business days after the total exceeds \$250. Good business practices dictate that all receipts, if the total does not exceed \$250, be deposited on a weekly basis to reduce the risk of loss. Additionally, performing a monthly accountability analysis provides the Clerk a timely opportunity to verify the accuracy of her financial records by reconciling a list of liabilities with cash on hand and on deposit with the bank. Furthermore, the analysis can assist the Clerk in preparing monthly reports and remittances.

Duplicate Receipts – The Clerk did not issue duplicate receipts for transactions where no other evidence of receipt was available. We reviewed 632 collections from January 1, 2012 through August 31, 2013, of which 380 (60 percent) did not have an associated prenumbered duplicate receipt issued. Without adequate supporting documentation, there is no way to determine that all cash is properly recorded in the accounting records or that all moneys are accounted for.

Recording Cash Receipts – The Clerk placed money in a bag upon receipt, but did not maintain a cash book, as required by law, to chronologically identify the individual receipts. Instead, the Clerk prepared a list at month end by comparing the amount of money in the bag to the sum of money collected for dog licenses⁶ plus the total per manual receipts issued for other collections, such as landfill tickets. The Clerk stated that if she was short at the end of the month⁷ she would add money out-of-pocket; if the amount in the bag exceeded the total from dog licenses and receipts, she would put the excess in the petty cash bag. However, since the Clerk did not consistently issue duplicate receipts when there was no other evidence of receipt, the total in the bag could appear accurate (or excessive) while in fact being short. Although the amounts of the discrepancies identified were negligible, this system is not a reliable method of verifying that all cash receipts are accounted for.

Deposits – Due to the lack of appropriate and complete records, we obtained bank deposit compositions for the 21 deposits listed on the bank statements for the period January 1, 2012 through August 31, 2013 to determine if moneys collected were recorded and deposited intact and in a timely manner. We determined the Clerk failed to deposit cash receipts in a timely manner as required by Law and instead made deposits at the beginning of the month for the previous month's collections.⁸ To comply with Town Law regarding cash receipts in excess of \$250, the Clerk should have been made 51 deposits, instead of 21, during the 20-month period reviewed. For example, 12 receipts totaling \$699 were collected from April 1 through April 10, 2013, but were not deposited until May 2, 2013. In addition, deposits were not made intact; the Clerk and her former Deputy substituted 11 personal checks totaling \$388.50 for cash during the audit period. The Clerk stated that she and the former Deputy wrote personal checks in lieu of going to the bank for cash.

⁶ From a monthly dog license report

⁷ If the Clerk was “short,” the money in the bag was less than the amounts of the manual receipts and dog licenses issued during the month.

⁸ The bank is next door to the Town Hall.

Monthly Accountabilities – Lastly, the Clerk did not perform a monthly accountability analysis to verify the accuracy of the financial records by reconciling a list of liabilities with cash on hand and on deposit with the bank.

Without consistently issued duplicate receipts, a chronological record of cash collections, or assurance that all deposits are timely and intact, Town officials cannot trace transactions from the point of collection through the accounting records to bank deposits and monthly reports. A monthly accountability analysis, combined with an annual Board audit of the Clerk's records and reports, would provide other essential controls to prevent or identify discrepancies. As a result of these deficiencies, the Town is at an increased risk of accounting errors and the loss or theft of Town moneys.

Recommendations

The Clerk should:

4. Issue prenumbered duplicate receipts for all Town transactions where no other form of receipt is available.
5. Record payer names, amounts paid and dates of collection in the cash book as collections are received.
6. Deposit all moneys in a timely manner and intact, and perform monthly accountabilities to ensure that known liabilities agree with available cash.
7. Discontinue using Town funds to cash personal checks.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

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

As noted in the Supervisor's cover letter, the Town responded in two formats: page and paragraph answers and a narrative approach. Since both formats contained the same information, we selected the page and paragraph format of the Town's response for inclusion here. We did not include charts that are mentioned in the cover letter due to poor legibility. Additionally, the two Board resolutions referenced in the Town's response are not included as their content is adequately explained.

The response cites page numbers in the draft report. Page numbers have changed during the final formatting process.

TOWN OF HORNELLSVILLE

P.O. BOX 1, 4 PARK AVE.
ARKPORT, NEW YORK 14807
607-295-7768
FAX# 607-295-8015

Kenneth Isaman, Supervisor

James Giglio, Board Member
Ronald Kennell, Board Member
Dan Broughton, Board Member
Joseph Dick, Board Member
Katherine Deal, Assessor

Sheryl Isaman, Town Clerk

Jason Emo, Hwy.Supt.
Gretchen McManus, Justice
Howard Plank, Justice
Sharon Ames, Tax Collector

April 29, 2014

Mr. Ed Grant
Office of the State Comptroller
16 West Main Street, Suite 522
Rochester, New York 14614

Dear Mr. Grant:

Please find enclosed our original signed response to our Audit for the Town of Hornellsville. We have included a page and paragraph answer and a narrative approach with charts included.


Our Town has been financially viable over the years. I am sure this statement will be proven as you read our reasons for doing things a little differently.

This really refers to a new highway equipment purchase program. Our plan will provide us with new machinery yearly.

Should you need to call me, please use 607-664-2363.

This report was approved by the entire Town Board.

Thank you,


Kenneth E. Isaman
Supervisor
Town of Hornellsville

KEI:si
Encl.

TOWN OF HORNELLSVILLE

P.O. BOX 1, 4 PARK AVE.
ARKPORT, NEW YORK 14807
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Kenneth Isaman, Supervisor
James Giglio, Board Member
Ronald Kennell, Board Member
Dan Broughton, Board Member
Joseph Dick, Board Member
Katherine Deal, Assessor

Sheryl Isaman, Town Clerk
Jason Emo, Hwy. Supt.
Gretchen McManus, Justice
Howard Plank, Justice
Sharon Ames, Tax Collector
Shawn Grasby, Codes Officer

April 27, 2014

AUDIT RESPONSES PER PAGE

Page 4, Paragraph 1. Audit Results

The Board's financial condition has remained viable due to purchases of new equipment and building improvements. In other words, the "value" of the Town has gone from large cash reserves to one of new machinery and building upgrades.

See
Note 1
Page 21

Page 4, Paragraph 2.

The Board utilized the appropriated fund to lower taxes to our residents. This is the very same method the audit of 1999 recommended we utilize cash reserves to lower tax levy. The 2% tax cap pushed by the State Government has shown to be unrealistic in this age.

See
Note 2
Page 21

Page 5, Paragraph 1. Unbudgeted Sale of Equipment.

All sales of equipment were authorized and budgeted in 2013. We have enclosed copy of two resolutions in June 2013 and September 2013 as proof.

See
Note 3
Page 21

Annual audits of the Clerk's and Justice's Court operations have always been performed for the above offices. Court responses always mailed to OSC Justice Court with no reply of incorrect filings.

See
Note 4
Page 21

Page 5, Paragraph 2

The Town Clerk maintains a cash book and did perform monthly reconciliation of cash and Town Clerk presented as each monthly Board Meeting a report of income and disbursements for the month to each Board Member and Supervisor. The Town Clerk only receives approximately about \$8,000.00 annually in receipts. This amount equals .0044% of total Town revenues of \$1.8 million.

See
Note 5
Page 21

See
Note 6
Page 21

Page 8, Paragraph 2.

The current Highway Superintendent has developed a 5 year plan to machinery replacement and road repairs. This aggressive policy will allow the Town to own equipment only 1-2 years old. This will almost eliminate any cost of equipment repairs due to being under Warranty.

See
Note 7
Page 21

FINANCIAL CONDITION

The Town does monitor the budget, all appropriation in Highway Fund are monitored Monthly. Each Town Board Member receives a monthly statement, as well as, a quarterly statement for General Funds.

Page 8, Paragraph 4.

We did expend a portion of the unexpended balance to Finance Operations. This was also done to keep within the 2% tax cap.

See
Note 2
Page 21

Additionally, we have eliminated one highway motor equipment operator which reduced the appropriations in Highway Budget by \$65,000.00 to \$70,000.00.

Page 9

The only way for us to increase revenues is to raise taxes or bond one of our new pieces of highway equipment. The 2% tax cap limits us. Appropriations have been increased due to raises in health insurance, State Retirement, diesel and gasoline, highway wages, utilities, etc.

Page 9, Table 1 Fund Balance.

The Town has funded four Reserve Accounts for several years. If we need a cash infusion, we could use these reserves. One is Building Reserve with \$37,000.00, Equipment Reserve \$57,000.00, Road Reserve \$49,000.00 and Stream Bank Reserve for \$20,000.00. Additionally, in a true disaster, like a flood, we can borrow from other funds like our Sewer Fund that has \$122,000.00. This was not stated in your report.

See
Note 8
Page 22

Page 9, Paragraph 4 – Town Outside Village Highway Fund.

The Town did budget for the sale of equipment in 2012. This gave us the capitol to pay a portion of a new 10 Wheel Truck. We could have financed the entire purchase, however, it was our desire to put the old truck proceeds as a “down payment” on the new truck. This is again, money we used to lower debt.

See
Note 3
Page 21

Page 10, Paragraph 3 – Recurring Revenue

The only way to accomplish this is by increase in taxes which is difficult without a 2% tax cap each year.

See
Note 2
Page 21

Page 10, Paragraph 4 – MULTI-YEAR PLANNING

We are in a 5 year program for highway machinery replacement. This is a very aggressive plan. We are also cognizant of the fact we are losing the LOWE’S Pilot Agreement, the two years later, our WEGMAN’S/WALMART Pilot lapses.

See
Note 7
Page 21

Page 10. Paragraph 1 – ANNUAL AUDIT

Town Books sometimes cannot be closed by January 20. Some bills are not yet received until February of the following year. The Town Board does complete an Annual Audit with just the Town Board. Our bookkeeper is present and guides us in the process.

See
Note 4
Page 21

Page 11, Paragraph 2

The Board did perform Annual Audits. The Board is comfortable utilizing our Bookkeeper as our guide.

See
Note 4
Page 21

TOWN CLERK

As per the paragraph on the Town Clerk, it was stated she should use pre-numbered duplicate receipts for all money collected. She, in fact, used the dual receipt in all cash revenue sources. Checks were listed on the deposit slip and copied, so a permanent record was created.

See
Note 9
Page 22

It was also stated that the Town Clerk did not maintain a cash book, that is also not correct. In fact, she did have that book. The methods the Town Clerk used were the same ones used over 27 years ago. In the 1999 Audit, there was nothing wrong in keeping the books in the same manner.

See
Note 5
Page 21

She did not realize that deposits were supposed to be deposited once the total totaled \$250.00. The other time a deposit should also be made is on a weekly or bi-weekly basis.

The other practice that has been cancelled, which was brought to light when State Auditor's were here in our building doing the audit was the exchanging of a personal check for cash in the Clerk's office. Again, this had been a long time practice. There was no illegality, however, it could create the wrong impression. 11 checks were cashed over the four year audit window.

See
Note 10
Page 22

We are very proud to say, that after a four month review by the three officials of the Comptroller's Office, they only found a discrepancy of \$38.00 over a four year time period in the Town Clerk's books. This demonstrates that the policies of the Town Clerk were, in deed, working. By the way, the discrepancy was \$38.00 "to the good".

See
Note 11
Page 22

The simple fact that the Town Clerk's Office was never notified by the Comptroller's Office or any other State Agency, that they should not be using these methods, is clear.

The recommendations you highlighted to the Clerk, have all been implemented by the Town Clerk.

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

Over the last three years, the Town's fund balance has been reduced to dangerously low levels, leaving the Town with an insufficient financial cushion for unforeseen events or cash flow.

Note 2

The Board increased the Town's tax levy in each of the three years, while also appropriating fund balance to finance operations. Furthermore, the Board voted to override the tax cap each year.

Note 3

The Board has not included an amount for the sale of equipment as estimated revenue in any of the 2011-2013 adopted TOV budgets that were presented to taxpayers. Instead, the Board amended the budget as these sales occurred, as noted in the two resolutions. However, neither of these resolutions relates to the \$144,000 sale of equipment in 2012 that is discussed in our report.

Note 4

According to the Board minutes and our interviews with the justices, the Clerk and the bookkeeper, an annual audit of the Town Clerk and justices' records was performed by the bookkeeper. Although the bookkeeper's one-page report was presented to the Board for its acceptance, the bookkeeper does not have the credentials required to meet the exception allowed for a public accountant to perform the annual audit in place of the Board.

Note 5

We stated that the Clerk did not chronologically record individual receipts on a daily basis in the cash book as required by law. Instead, the Clerk waited until month end to record collections based on what was in her money bag or for which she occasionally issued a duplicate receipt, which does not ensure all receipts were recorded or deposited. Furthermore, the Clerk conducted no monthly reconciliation of cash with the amount in the bank and related liabilities.

Note 6

Regardless of how much money the Clerk receives, internal controls must be in place to ensure that all cash receipts and disbursements are properly accounted for and safeguarded.

Note 7

The Board has not adopted any formal written long-term plan for machinery replacement or finances.

Note 8

Moneys from legally established reserve funds may only be expended for the purpose for which they were established, not for a “cash infusion” to fund operating expenditures. Furthermore, inter-fund borrowing is used to meet short-term cash flow needs. These loans are supposed to be approved by the Board and paid back by the end of the year, with interest, if the loan is between funds with different tax bases.

Note 9

Duplicate receipts were issued only for cash collections, not for payments by check. Furthermore, a list of checks on the deposit slip does not necessarily include all moneys received.

Note 10

The Clerk’s practice of cashing personal checks was not only improper but increased the risk of error, contributing to the need for the Clerk to occasionally add money out-of-pocket to the money bag at month end to balance the total with her records.

Note 11

The audit of the Clerk’s books and records was for the 20-month period January 1, 2012 through August 31, 2013. Controls in the Clerk’s office were poor and cash receipts were not safeguarded. Because the Clerk failed to issue duplicate receipts for all collections, we cannot be sure that all collections were properly deposited. However, our review of available cash receipts and dposits found the Clerk was “short” \$20.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To focus our audit on those areas most at risk, we performed an initial assessment of the following areas: financial oversight, cash receipts and disbursements, payroll and personal services. During the initial assessment, we interviewed appropriate Town officials, performed limited testing of transactions and reviewed pertinent documents, such as Board minutes, 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 fraud, theft or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas at most risk. We selected the Board's financial management and Clerk's operations for further audit testing.

To accomplish our objectives, we interviewed appropriate Town officials and employees, tested selected records and examined pertinent documents for the Clerk for the period January 1, 2012 through August 31, 2013. We expanded our scope for financial operations back to January 1, 2011 through 2013. Our audit included the following steps:

- We interviewed appropriate Town officials to gain an understanding of financial operations.
- We estimated the 2013 operating surplus/(deficit) by using actual amounts from January 1, 2013 to September 30, 2013 and estimates from the bookkeeper for the remainder of the year to determine the amount of fund balance available to finance 2014 operations and compared this with the amount of appropriated fund balance in the 2014 tentative budget. We also obtained actual 2013 operating results in February 2014.
- We reviewed the Town's adopted budgets for 2011 through 2014 to determine the amount of fund balance appropriated.
- We reviewed the Town's budget-to-actual variances for 2010 through 2012 to determine if the variances were significant.
- We reviewed the Board minutes and interviewed Town officials regarding the policies and procedures for receipts and annual audit of officials or employees collecting receipts.
- We reviewed the Clerk's accounting records for the period January 1, 2012 through August 31, 2013 to determine if the Clerk accurately recorded, deposited, disbursed and reported all moneys collected in a timely manner.
- We performed a cash count on August 28, 2013 to determine the amount of cash and checks the Clerk had on hand since her last bank deposit for comparison with the cash receipts records.
- We obtained compositions for all deposits made to the Clerk's bank account during our audit period to determine if deposits were made intact and in a timely manner.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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