



Town of York

Budgeting and Financial Oversight

Report of Examination

Period Covered:

January 1, 2012 — December 12, 2013

2014M-181



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 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 York, entitled Budgeting and Financial Oversight. 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 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 York (Town) is located in northern Livingston County and contains seven hamlets. The Town is largely agricultural with a population of 3,397. The Town offers a variety of services to its residents, including a justice court, a recycling center, fire protection, highway maintenance and improvements, water and sewer services, recreational programs and general government support. The Town finances these services with real property taxes, sales tax, user charges, fines and State aid. The Town's 2014 adopted budget totaled approximately \$3 million.

The Town is governed by an elected Town Board (Board) comprising four Board members and a Supervisor. The Supervisor is the chief executive officer as well as the chief financial officer and budget officer. As such, he is responsible for maintaining the financial records and providing monthly reports to the Board that summarize the Town's financial activities. The accounting function is vital for ensuring the ongoing proper funding and recording of the services the Town provides to its residents. The Town has contracted with a bookkeeping firm (Firm) to assist the Supervisor in performing these duties including processing the Town's payroll.

Scope and Objective

We examined the Town's budgeting practices and financial oversight for the period January 1, 2012 through December 12, 2013. We expanded our scope back through 2009 and forward through December 31, 2013 to review the Town's fund balance, real property tax and budgeting trends. Our audit addressed the following related questions:

- Did the Board properly budget for and monitor the Town's financial operations?
- Did the Board and Supervisor provide adequate oversight of financial duties and recordkeeping?

Audit Results

The Board and Town officials have not adopted policies and procedures or long-term financial plans to govern the budget process or the appropriate level of fund balance to be maintained in each fund. As a result, the Board did not always adopt accurate budgets, and relied heavily on the appropriation of fund balance to balance its budgets. Consequently, unexpended surplus funds declined quickly in the general fund, by nearly \$87,000, from December 31, 2010¹ to December 31, 2013, to only 5 percent of the 2014 budget. Similarly, unexpended surplus funds in the highway fund declined as a

¹ Unassigned fund balance was \$110,427 as of December 31, 2010.

result of \$139,290 in unplanned operating deficits over three years, and the Board appropriated more fund balance in its 2013 budget than was available for this purpose. Continued reliance on fund balance appropriations and any sizeable budget variances in future years will result in fiscal stress in the general and highway funds. In addition, the highway fund's financial condition may be further negatively impacted by the existence of a capital reserve that would restrict significant cash assets from being available to finance operations.

The Board did not adequately fulfill its fiscal oversight responsibilities. The Board has not adopted policies or ensured that Town officials adopted procedures to govern financial operations or the management of cash and has not adequately reviewed and updated its purchasing policy. Furthermore, the Supervisor did not maintain adequate control over the Town's accounting records and did not adequately contract for² and oversee the financial duties performed by the Firm. Finally, the Board did not perform an annual audit of the records and reports of the Supervisor and Town Clerk.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials disagreed with some of the findings and recommendations in our report, but indicated they plan to implement corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

² The Town executed its first contract during our audit fieldwork, which was for the 2014 fiscal year.

Introduction

Background

The Town of York (Town) is located in northern Livingston County and contains seven hamlets. The Town is largely agricultural with a population of 3,397. The Town offers a variety of services to its residents, including a justice court, a recycling center, fire protection, highway maintenance and improvements, water and sewer services, recreational programs and general government support. The Town finances these services with real property taxes, sales tax, user charges, fines and State aid. The Town's 2014 adopted budget totaled approximately \$3 million.

The Town is governed by an elected Town Board (Board) comprising four Board members and a Supervisor. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor is the chief executive officer as well as the chief financial officer and budget officer. As such, he is responsible for maintaining the financial records and providing monthly reports to the Board that summarize the Town's financial activities. The accounting function is vital for ensuring the ongoing proper funding and recording of the services the Town provides to its residents. The Town has contracted with a bookkeeping firm (Firm) to assist the Supervisor in performing these duties including processing the Town's payroll.

Objective

The objective of our audit was to review the Town's budgeting practices and financial oversight. Our audit addressed the following related question:

- Did the Board properly budget for and monitor the Town's financial operations?
- Did the Board and Supervisor provide adequate oversight of financial duties and recordkeeping?

Scope and Methodology

We examined the Town's budgeting practices and financial oversight for the period January 1, 2012 through December 12, 2013. We expanded our scope back through 2009 and forward through December 31, 2013 to review the Town's fund balance, real property tax and budgeting trends.

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

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials disagreed with some of the findings and recommendations in our report, but indicated they plan to implement corrective action. Appendix B includes our comments on the 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 New York State General Municipal Law (GML). 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.

Budgeting

The Board is responsible for making sound financial decisions that are in the best interests of the Town and the taxpayers who fund its operations. It is essential for the Board to establish detailed budgeting policies and long-term financial plans that help ensure the adoption of realistic and structurally balanced budgets and establish goals for fund balance levels, so that recurring revenues finance recurring expenditures and on-going or long-term financial goals are met. In addition to accurate revenue and expenditure estimates, Town officials must have available to them, when they are developing the budget, a reasonable estimate of the fund balance – i.e., the difference between revenues and expenditures accumulated from prior years – that will be available at the end of the current fiscal year. The Board is responsible for retaining enough unexpended surplus funds³ at the end of the year to provide a reasonable financial cushion for unexpected events and cash flow in the ensuing year. The Board may then appropriate a portion of surplus fund balance as a financing source in the ensuing year’s budget to reduce the tax levy. The appropriation of fund balance should result in a planned operating deficit (expenditures exceeding revenues) for that fiscal year and can be an effective tool to responsibly reduce surplus fund balance. However, the Board must use accurate fund balance estimates and careful planning to avoid over-appropriating fund balance and potential fiscal stress.

The Board and Town officials have not adopted policies and procedures or long-term financial plans to govern the budget process or the appropriate level of fund balance to be maintained in each fund. As a result, the Board has adopted budgets that were not accurate and relied heavily on the appropriation of fund balance to balance its budgets, resulting in a rapid reduction of fund balance in the general fund and an appropriation of more fund balance than was available in the highway fund.

³ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term “unexpended surplus funds” to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year’s budget (after Statement 54).

General Fund – The general fund had operating deficits for the last three years, totaling \$99,371, only portions of which were planned (through appropriated fund balance) for 2011 and 2013. Operating results varied from the budget because revenue and expenditure estimates were not accurate or consistent. As a result, unexpended surplus funds declined quickly, by nearly \$87,000 from December 31, 2010⁴ to December 31, 2013, to only 5 percent of the 2014 budget. This fund balance level may be insufficient to cover any unforeseen occurrences during the year or to provide cash flow. Continued reliance on fund balance appropriations and any sizeable budget variances in future years will result in fiscal stress in the general fund.

Figure 1: General Fund, Budget and Operating Results

	2011	2012	2013
Estimated Revenues	\$539,272	\$451,739	\$457,127
Actual Revenues	\$488,823	\$484,049	\$477,222
Under / (Over) Estimated Revenues	(\$50,449)	\$32,310	\$20,095
Appropriations	\$563,910	\$481,739	\$492,077
Actual Expenditures	\$529,319	\$490,758	\$529,388
Over / (Under) Estimated Expenditures	\$34,591	(\$9,019)	(\$37,311)
Total Budget Variance	(\$15,858)	\$23,291	(\$17,216)
Operating Surplus (Deficit)	(\$40,496)	(\$6,709)	(\$52,166)
Appropriated Fund Balance ^a	\$24,638	\$30,000	\$34,950
Unplanned Operating Deficit	(\$15,858)	N/A	(\$17,216)
Unexpended Surplus Funds (USF) ^b	\$70,401	\$60,721	\$23,619
Next Year's Budget Appropriations	\$481,739	\$492,077	\$494,114
USF as a Percentage of Next Year's Budget	15%	12%	5%
^a The Board appropriated \$14,714 of fund balance in the 2014 budget.			
^b These amounts were incorrectly reported as Assigned Fund balance instead of Unassigned Fund Balance on the Town's annual report to OSC.			

We reviewed the 2014 adopted budget, and found that the Board reduced the fund balance appropriation by \$20,000 and increased the tax levy by \$15,700. These actions are likely to stabilize fund balance but are unlikely to increase it to an amount that would provide a reasonable financial cushion for unexpected events and cash flow in the ensuing year.

Highway Fund – The highway fund incurred operating deficits three years in a row, from 2010 through 2012, totaling \$209,374. Only \$70,084 of the total deficits were planned through fund balance appropriations, with unplanned operating deficits totaling \$139,290. This was caused by overestimated revenues for two years and overspending the budget for two years. As a result, total fund balance dropped from \$226,848 at the end of 2009 to only \$11,370⁵ at the end

⁴ Unassigned fund balance was \$110,427 as of December 31, 2010.

⁵ The Town reported total highway fund balance of \$17,474, which we restated for this presentation to \$11,370 due to errors in reporting total liabilities (see Supervisor's Duties).

of 2012. However, the Board appropriated \$25,675 in fund balance as a revenue source in its 2013 budget, resulting in an unrestricted fund balance deficit of \$14,305.

Figure 2: Highway Fund, Budget and Operating Results				
	2010	2011	2012	2013
Estimated Revenues	\$632,631	\$656,631	\$698,220	\$698,520
Actual Revenues	\$686,569	\$645,042	\$643,238	\$742,842
Under/(Over) Estimated Revenues	\$53,938	(\$11,589)	(\$54,982)	\$44,322
Appropriations	\$682,631	\$676,715	\$698,220	\$724,195
Actual Expenditures	\$804,608	\$665,604	\$714,011	\$666,064
Over/(Under) Estimated Expenditures	(\$121,977)	\$11,111	(\$15,791)	\$58,131
Total Budget Variance	(\$68,039)	(\$478)	(\$70,773)	\$102,453
Operating Surplus (Deficit)	(\$118,039)	(\$20,562)	(\$70,773)	\$76,778
Appropriated Fund Balance	\$50,000	\$20,084	\$0	\$25,675
Unplanned Operating Deficit	(\$68,039)	(\$478)	(\$70,773)	N/A
Unexpended Surplus Funds (USF)	\$88,725	\$85,763	(\$14,305)	\$94,252
Next Year's Budget Appropriations	\$676,715	\$698,220	\$724,195	\$796,853
USF as a Percentage of Next Year's Budget	13%	12%	(2%)	12%

Had the Board's 2013 budget been accurate, the highway fund would have been left with a deficit fund balance of approximately \$14,000 at year end. Subsequent to our audit field work, we reviewed unaudited financial reports for 2013⁶ and found the highway fund ended the year with an operating surplus of approximately \$77,000, which resulted in part from higher than anticipated revenues from services to other governments and decreased expenditures for street maintenance and machinery and equipment. In addition, the Board did not appropriate fund balance in its 2014 highway fund budget, and thus, the highway fund reported total unexpended surplus funds of approximately \$94,000 at year end. If the Board were to monitor actual revenues and expenditures more closely and adopt more accurate budget estimates, it could better avoid such significant fluctuations. In addition to eliminating the fund balance appropriation in the 2014 budget, the Board increased the tax levy by \$11,000, increased other revenues by approximately \$87,000 and expenditures by nearly \$73,000.

In addition, the Supervisor's financial records indicated that a majority of the highway fund balance is in a separate bank account for a highway equipment reserve⁷ with a balance of more than \$62,000 at the end of 2012 and \$82,000 at the end of 2013.⁸ However, the

⁶ We requested and received unaudited 2013 year-end financial reports from the Town on March 24, 2014, for an updated perspective.

⁷ Reserve funds may be established by Board action, pursuant to various laws, and are used to provide financing only for specific purposes, after complying with specific statutory requirements.

⁸ The Town transferred an additional \$20,000 of its 2013 operating surplus to this special reserve bank account, without formal Board resolution.

Town neither reported a reserve in its annual financial reports nor provided any evidence that a reserve was ever officially created by Board resolution.⁹ The potential existence of a reserve in the highway fund is significant in that such fund balance reservations, which would not legally be available for regular highway operations, would reduce total unexpended surplus funds to no more than 4 percent of the ensuing year's budget for the last four years. In fact, the calculated unexpended surplus funds at the end of 2012 would have been a negative \$76,570 (11 percent). Furthermore, even after the sizeable 2013 operating surplus, the remaining unexpended surplus funds available to fund unexpected occurrences, after deducting the purported reserve amount, was \$12,000, or 2 percent of the 2014 budget, with \$9,200 in available unreserved cash. We did find that the Town reported this amount in a separate "Cash in Time Deposits, Special Reserves account" on its 2013 report to OSC, but did not report an equipment reserve in the fund equity section of the report; all fund balance was simply reported as assigned unappropriated fund balance.

The Board's budgeting process caused the Town's adopted budgets to be inaccurate and unrealistic, and resulted in operating deficits and dangerously low cash and fund balances. While the Town relied on available fund balance to offset these inaccurate budgets in prior years, those resources have been used extensively, and without significant improvements to the budget process, may not be available in the future.

Recommendations

The Board and Supervisor should:

1. Establish written policies and procedures and long-term financial plans to govern the budgeting process and appropriate fund balance levels to maintain for all Town funds.
2. Adopt accurate budgets with realistic estimates of revenues, expenditures and fund balance.

The Board should:

3. Research its proceedings and other available information to determine if a highway equipment reserve has been established. Depending on the conclusion reached the Board should determine the impact on the highway fund's financial condition.

⁹ This equipment reserve bank account has been active since 2002; however, the reserve was never officially created and was never reported to OSC until 2013, after we discussed this with officials during fieldwork.

Financial Oversight

The Board is responsible for the overall management of Town operations in the best interests of the Town and its taxpayers. This responsibility requires the Board to develop a framework of fiscal oversight which includes policies to guide staff in key areas of financial operations and monitoring fiscal operations, including overseeing the Supervisor's financial duties and conducting statutorily required annual audits of the financial records of officers and employees who receive and disburse Town moneys. It is essential to have a written contract in place to govern the compensation and responsibilities of the Firm that performs some of the Supervisor's financial duties. Further, it is important that the Supervisor oversees the work¹⁰ to ensure his assigned duties are performed in a complete, accurate and timely manner.

The Board did not adequately fulfill its fiscal oversight responsibilities. The Board has not adopted policies or ensured that Town officials adopted procedures to govern financial operations or the management of cash. As a result, the Supervisor did not maintain adequate control over the Town's accounting records and did not adequately contract for¹¹ and oversee the financial duties performed by the Firm. In addition, the Board did not perform an annual audit of the records and reports of the Supervisor and Town Clerk.

Policies and Procedures

Written policies and procedures formally establish and communicate to staff the manner in which to conduct the day-to-day operations of the Town and provide reasonable assurance that Town assets are adequately safeguarded. GML requires the Board to adopt written policies for investments and for procurements not subject to the legal requirements of competitive bidding, and to annually review these policies and update them if necessary. The Board should also develop written policies for all finance-related areas including cash management, cash receipts and disbursements, claims processing and auditing, use of credit cards, payroll processing and maintenance of leave records and information technology. The Supervisor is responsible for developing written procedures to implement the policies adopted by the Board. Such policies and procedures help

¹⁰ Discretionary acts involve the exercise of reasoned judgment, which could typically produce different acceptable results, whereas a ministerial act envisions direct adherence to a governing rule or standard with a compulsory result. Only those functions which may properly be characterized as ministerial can be performed by an outside firm, and only so long as the Supervisor retains ultimate responsibility for the performance of his discretionary functions.

¹¹ The Town executed its first contract, during our audit fieldwork, for the 2014 fiscal year.

ensure that duties are clearly assigned and adequately segregated or that compensating controls are in place.

We found that the Board has not adopted, reviewed, updated or enforced adequate financial related policies to ensure Town resources are protected. The Board has not adopted an investment policy or a cash management policy, and thus lacks assurance that Town moneys are timely deposited, properly secured and are or will be invested in compliance with legal requirements and the Board's intentions. Additionally, the Board and Supervisor had not adopted policies and procedures for cash receipts and disbursements, claims processing and auditing, use of credit cards, payroll processing and maintenance of leave records and information technology, to define responsibilities and provide guidelines to employees.

Furthermore, we found that the procurement policy was inadequate and outdated, and had not been annually reviewed and approved by the Board. The Board had not updated the policy's quotation requirements to reflect current statutory bidding thresholds.¹² Thus, the Town's policy is more restrictive than is legally required, and calls for competitive bidding for purchases over \$10,000 and public works contracts over \$20,000, instead of the statutory thresholds of \$20,000 and \$35,000. The policy also lacks guidance on procurements of professional services.¹³ Without a comprehensive policy that encourages the use of competition when awarding professional service contracts, the Board and Town officials cannot assure taxpayers that these costly services are procured at the most favorable terms and without favoritism. Furthermore, when policies and procedures are not reviewed, updated and disseminated regularly, there is a risk that employees will be unaware of the Town's purchasing procedures, and may not make purchases in accordance with the policy and legal requirements, or in the most economical manner.

Without implementation and enforcement of adequate policies and procedures, the Board cannot ensure that all financial transactions are properly processed and recorded and that resources are properly safeguarded and used only for necessary and authorized Town purposes.

¹² The threshold for public works contracts changed from \$20,000 to \$35,000 in November 2009, and the threshold for purchase contracts changed from \$10,000 to \$20,000 in June 2010.

¹³ While professional services are not required to be competitively bid, GML requires the Board to adopt a procurement policy which provides for some level of competitive comparisons for all procurements not subject to competitive bidding requirements, including professional services. Soliciting written proposals or quotes, as through a request for proposal (RFP) process, is an effective means to procure professional services at the best value and document how the selection was made.

Supervisor's Duties

As the Town's chief fiscal officer, the Supervisor is responsible for collecting, receiving, safeguarding, maintaining custody of and disbursing all Town moneys. The Supervisor is also responsible for keeping accurate and complete accounting records for all moneys received and disbursed, and all assets and liabilities accrued, in accordance with the accounting system prescribed by the State Comptroller. The Supervisor must ensure that the financial records are complete, accurate and up-to-date to be relevant and useful for managing Town operations, and must present detailed monthly financial reports to the Board. In addition, New York State Town Law (Town Law) requires that the Supervisor's records be open and available for public inspection at all reasonable hours of the day. It is essential to have a written contract in place to govern the compensation and responsibilities of the Firm that performs some of the Supervisor's financial duties, and that the Supervisor oversees the Firm to ensure that it is performing the agreed upon duties effectively.

The Supervisor does not have adequate control of his financial records, and does not appropriately monitor the Firm that performs some of his financial duties. The Town does not have a contractual agreement with the Firm to clearly delineate the services to be provided. When we requested copies of contracts between the Town and Firm for 2012 and 2013 to ensure the Town received the services it had paid for, Town officials stated no contract was in place for that time period. On October 18, 2013, Town officials provided us with a signed written contract for bookkeeping and payroll services to be provided by the Firm for the 2014 fiscal year.¹⁴ We reviewed the contract and found it lacked detail and did not address significant concerns such as the handling of disputes, the details of Town records storage, controls over and security of the Town's data or bonding of Firm employees.

The Town's financial records, including blank check stock, are maintained at the Firm, which is located in another town. When we requested 2012 records in October 2013, we were informed the Firm had still not returned the Town's records from the previous year, nearly 10 months after year-end. Because the Firm is located nearly 30 miles from the Town offices, these records are not readily available for public inspection, as required by Town Law. Further, the Firm prepares and prints Town checks, prepares payroll direct deposits, files the Town's payroll reports with government agencies and prepares bank reconciliations and all financial reports with little or no oversight by the Supervisor. This increases the risk that the Firm could initiate a transaction, fail to record it and then hide it during the reconciliation process. The Supervisor stated that he does not review

¹⁴ The Town has procured accounting services from the Firm since 2007, but did not execute a contract with the Firm until after we inquired during our audit fieldwork.

the bank reconciliations prepared by the Firm. In addition, Town Law requires the Supervisor to provide the Board with a detailed statement of all money received and disbursed by him every month. However, the monthly Supervisor's report, as prepared by the Firm on his behalf and presented to the Board, does not accurately contain the account information needed to reflect the Town's financial position and results of operations. The report does not contain information on the trust and agency account or the health reimbursement account, and does not provide current reconciled cash balances for any of the Town's bank accounts, which are necessary to allow the Board to make informed decisions. In addition, balance sheet account totals on these reports are not up-to-date, but are the prior year end amounts.

Because the Supervisor does not maintain adequate control over his financial records and does not adequately oversee the bookkeeping firm performing his financial duties, the risk is increased that errors or irregularities could occur and not be detected or corrected. Due to this increased risk, we reviewed the Town's financial records in more detail and identified the following deficiencies:

- Interfund advances were made without being formally approved by the Board,¹⁵ and inappropriately remained outstanding at year end, with balances totaling \$64,118 at December 31, 2012 and \$37,660 at December 31, 2013.
- The accounts receivable figure reported on the 2012 balance sheet for the Town's water fund was overstated by approximately \$4,000 because it was not properly adjusted to reflect an adjustment to water billing accounts.
- The accounts payable figures reported on the 2012 balance sheet for the general, highway, water district and combined sewer districts funds were inaccurate.
 - o Three items totaling \$3,886 were recorded as payables in the general fund 2012 balance sheet that were 2013 expenditures.
 - o Five items totaling \$1,111 were recorded as payables in the highway fund that were 2013 expenditures, and one 2012 expenditure in the amount of \$6,985 that was paid in 2013 was not recorded as a payable. This reduced the already critically low highway fund balance by an additional \$6,100.

¹⁵ GML authorizes the Board to approve (by resolution) cash advances between Town funds for short-term cash flow needs. The statute requires that repayment be made as soon as moneys are available, but no later than the close of the fiscal year in which the advance was made, and with interest if the advance is between funds with different tax bases.

- o Thirteen payments totaling \$5,079 on nine bills for expenditures both invoiced and paid in 2013 were inaccurately recorded as payables for the water and sewer funds.

If Town moneys are not properly accounted for, the officials and residents are not properly informed regarding the Town's monetary resources. The Town's financial condition could be compromised by officials' decisions that were based on poor accounting information, and as a result, the provision of services could suffer. For example, because the Board has not provided appropriate guidance and oversight, and the Supervisor has not maintained adequate control over his financial records nor adequately overseen the bookkeeping firm performing his financial duties, the Town's general and highway funds' financial condition has declined.¹⁶

Annual Audit

According to Town Law, by January 20th of each year, each Town officer or employee who received or disbursed any moneys on the Town's behalf in the previous year must provide an accounting to the Board for these moneys and must produce all books, records, receipts, vouchers and canceled checks for audit. The Board is required to annually audit, or engage an independent accountant to audit, these records. The annual audit's purpose is to provide assurance that public moneys are handled properly, to identify conditions that need improvement and to provide oversight of the Town's financial operations. The Board should ensure that the completion and results of the audit are included in its meeting minutes and that documentation is filed detailing how the audit was performed and the records that the Board reviewed.

The Board did not audit, or procure an independent audit of, the Supervisor's or Town Clerk's (Clerk) books, records and reports for the 2012 or 2013 fiscal years. In fact, Town officials told us that the Board has not audited the Supervisor's or Clerk's records in more than eight years. The Board's failure to examine accounting records and reports hindered its ability to maintain accountability over the Town's financial operations and ensure the Supervisor is adequately performing his duties. Annual audits would have enabled the Board to identify and address the accounting issues and errors we identified during our audit.

¹⁶ See previous Budgeting finding.

Recommendations

The Board and Supervisor should:

4. Establish and annually review investment, cash management and procurement policies.
5. Establish detailed policies and procedures to define responsibilities and provide guidance to employees for key financial areas including cash receipts and disbursements, claims processing and auditing, use of credit cards, payroll processing and maintenance of leave records and information technology.

The Supervisor should:

6. Provide proper oversight of the Firm to ensure its staff maintain complete, accurate and timely accounting records that contain the account information needed to reflect the Town's financial position and results of operations as prescribed by our office.
7. Ensure that financial records are maintained at Town offices and readily available for public inspection, as required by statute.
8. Ensure his monthly report includes current reconciled cash balances and receipt and disbursement information for all accounts that are the Board's financial responsibility.
9. Perform monthly bank reconciliations for all accounts or review the Firm prepared bank reconciliations.

The Board should:

10. Require a written contract with the Firm that clearly outlines all services to be provided, the handling of disputes, the details of records storage, controls over and security of the Town's data, bonding of firm employees and compensation to be paid.
11. Approve necessary interfund advances before they are made, and ensure they are properly recorded and amounts paid back, with interest as appropriate, within the year as required.
12. Conduct an annual audit of the records and reports of all Town officers and employees who received or disbursed moneys during the preceding fiscal year, or retain the services of an independent auditor to conduct the audits. Documentation should be maintained detailing the records reviewed and the outcome of the audit, with the results included in the Board meeting minutes.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Supervisor
GERALD L. DEMING

Town Board
LYNN M. PARNELL
NORMAN R. GATES
DAVID DEUEL
FRANK ROSE JR.

Highway Superintendent
GEORGE WORDEN JR.

Zoning/Code Enforcement
CARL A. PETER



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Town Clerk/Tax Collector
CHRISTINE M. HARRIS

Town Justices
THOMAS A. PORTER
WALTER PURTELL

Court Clerk
NORMA GEARY

Assessor
ANNE SAPIENZA

September 30, 2014

State of New York
Office of the State Comptroller
110 State Street
Albany, New York 12236
Attn: Thomas P. Dinapoli

Dear Mr. Dinapoli:

The following is in response to the recent audit report for the Town of York. It is my belief that your auditors did not have a full understanding of the real workings of small town government as the report focused heavily on policy and procedures rather than fiscal responsibility. More importantly, it was disappointing that not one line in the draft report recognized the consistent accountability and the fact that all cash was accounted for in the years that were examined. In conversations with my neighboring leaders, this too was a common opinion noted in their findings as well and should be taken in to account.

See
Note 1
Page 19

See
Note 2
Page 19

In addition, I was disappointed that the auditor stated that we had budgeted poorly. I disagree with her findings. The numbers support her but the facts do not. During the period in question, the Town of York had a number of unforeseen circumstances that created issues for the Town Board to make necessary decisions. One cause was a maintenance situation when roof that needed immediate replacement was not previously budgeted for. During the prior budgeting process, we were led to believe that a repair to the problem at hand would suffice when ultimately that proved not to be the case. A new roof was voted on as that seemed to be the best use of taxpayer funds therefore using portions of the fund balance.

See
Note 3
Page 19

Also, another point that I would like to address was the loss of revenue for the year 2012. This revenue was typically received and expected from previous years work and was a tremendous blow to our Highway budget not to collect it. For over ten years, Livingston County had relied upon the Town of York to do numerous summer repair projects in or near our Town. In this particular year, the work was not ample therefore the lack of

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revenue generated caused serious concern. By the time this was realized, expenditures planned for our own town road maintenance had already been committed. The absence of this all important source of revenue certainly provided budgetary constraints for our small municipality.

These are just two examples of circumstances that arise and can alter a budget already in place therefore creating a need to look toward the use of a fund balance. If you take a moment to look in the report, you will see the comment where the Board took action to stabilize the fund balance. Truth be told, the Board reacted the best they could to a situation that that was truly unforeseen and not within their control. Fortunately, in the years prior to these events, the Town Board saw fit to accumulate fund balances beyond the Comptroller's recommended ten percent further allowing us to weather these events without causing any additional cost to our community.

See
Note 4
Page 19

Finally, I am quite aware that no governing body is perfect as you can identify and note violations in most all municipal entities. Despite the lengthy time that this audit took to complete, it is the opinion of the Supervisor and the Town Board that her findings did not clearly convey the efforts put forth to be fiscally responsible to the taxpayers of the Town of York.

Enclosed is a separate plan of corrective action addressing your twelve concerns.

Respectfully submitted,

Gerald L. Deming
Supervisor

APPENDIX B

OSC COMMENTS ON TOWN OFFICIAL'S RESPONSE

Note 1

The Office of the State Comptroller has demonstrated its expertise in municipal governance and accounting through the auditing, publications, training, technical assistance and other services it routinely provides to local governments.

Note 2

Developing and monitoring detailed policies and procedures over financial operations is an essential component of the Board's fiscal responsibility.

Note 3

As noted in the report, the fund balance decline in the general fund occurred over a three-year period and was a result of multiple years of inadequate budgeting practices, not unexpected expenditures in one year.

Note 4

The Comptroller's Office does not recommend a specific amount or percentage of fund balance that the Town should maintain. The Board needs to determine and formally document what fund balance level is reasonable for the Town's particular situation, and should routinely monitor and reevaluate the fund balance level to ensure it is sufficient but not excessive for the Town's needs. Additional guidance on determining a reasonable fund balance is available on our website using the following link: <http://www.osc.state.ny.us/localgov/pubs/releases/budfund.htm>.

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APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: Board oversight, financial management, cash receipts and disbursements, purchasing, payroll and information technology. During the initial assessment, we interviewed Town officials, performed limited tests of transactions and reviewed pertinent documents, Board minutes and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft or professional misconduct. We then decided upon the reported objective and scope by selecting for audit the area most at risk. We selected the Board's financial management for further audit testing.

We examined the Town's financial management for the period January 1, 2012 through December 12, 2013. We expanded our scope back through 2009 and forward through December 31, 2013, to review the Town's fund balance levels, real property tax and budgeting trends. To achieve the objective of this audit and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and employees to gain an understanding of the Town's processes and operations and to determine the internal controls in place.
- We reviewed the Town's policies, the 2014 contract with the bookkeeping firm and Board meeting minutes.
- We analyzed fund balance and real property tax trends for the period 2009 through 2013.
- We compared budgeted revenues and expenditures to actual operating results for 2009 through 2013.
- We reviewed total annual revenues and expenditures to determine the operating deficits or surpluses for each fund for 2009 through 2013.
- We reviewed budgets for 2009 through 2014 to determine the amount of fund balance that was appropriated for each fund each year.
- We compared total revenue and expenditure balances, balance sheet account balances and individual revenue and expenditure account balances as reported on the annual update document to on-site records and off-site records provided by the bookkeeping firm to verify the reliability of financial data.
- We reviewed interfund activity to determine whether it was authorized, appropriate and repaid when necessary.

- We reviewed the Town's accounting records to determine whether they were adequate to meet the Town's needs and in the format prescribed by our office.
- We reviewed the monthly financial reports provided to the Board to determine whether they provided the Board with the information necessary to properly manage the Town's finances.
- We reviewed the supporting schedules and documentation for the receivables and payables figures reported on the Town's annual update document to determine whether the figures were accurate and supported, and whether the items included on the schedules were proper. We also did a search for unreported liabilities.
- We reviewed current 2014 budget and operations to determine their effect on the Town's financial condition. After we completed fieldwork, we obtained and reviewed final 2013 financial reports.

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 D

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