



Town of Easton

Sales Tax Allocation

Report of Examination

Period Covered:

January 1, 2013 — June 30, 2014

2014M-355



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Local Officials and Corrective Action	3
SALES TAX ALLOCATION	4
Recommendations	5
APPENDIX A Response From Local Officials	6
APPENDIX B OSC Comment on the Town's Response	9
APPENDIX C Audit Methodology and Standards	10
APPENDIX D How to Obtain Additional Copies of the Report	11
APPENDIX E Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2015

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 Easton, entitled Sales Tax Allocation. 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*

Introduction

Background

The Town of Easton (Town) is located in Washington County (County) and has a population of approximately 2,300. The Town includes within its borders a portion of the Village of Greenwich¹ (Village). The Town is governed by an elected five-member Town Board (Board), which comprises the Supervisor and four Board members. The Board is responsible for the general oversight and control of the Town's operations and finances. The Supervisor serves as the Town's chief executive officer and chief financial officer and is responsible for the day-to-day management of Town operations. The Supervisor is also the Town's budget officer.

The Town provides services to its residents that include highway maintenance, snow removal, a Justice Court and general government administration. The Town accounts for the majority of its financial activities in the town-wide general fund and the town-outside-village highway fund.² The 2014 budgeted appropriations were approximately \$1.2 million for all funds and were funded primarily with real property taxes, sales tax and State aid.

Objective

The objective of our audit was to review the Town's practice for allocating sales tax revenue. Our audit addressed the following related question:

- Are sales tax revenues budgeted and allocated properly to maintain equity among taxpayers?

Scope and Methodology

We examined the allocation of sales tax revenue for the period January 1, 2013 through June 30, 2014. We expanded our review to include the 2011 and 2012 years to provide background and perspective with the Town's allocation of sales tax revenue.

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 C of this report.

¹ The Village is located in the Towns of Easton and Greenwich.

² The town-wide general fund is the principal operating fund and is used to account for all Town-wide operations (including the Village). The town-outside-village highway fund is used to account for services provided for the benefit of the residents and taxpayers residing in the area of the Town located outside of Village boundaries.

**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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue 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.

Sales Tax Allocation

The Board is responsible for making sound financial decisions that are in the best interest of the Town and its taxpayers. New York State Tax Law authorizes counties to share sales tax revenues with certain local governments. When counties distribute sales tax revenues, the local governments must appropriately budget and account for those revenues. If a town includes a village, the village can elect to receive a share of the revenues allocated to the town. When a town and a village within the town both receive sales tax revenue, the town must use the sales tax revenue to reduce real property taxes for the town-outside-village funds. If a town eliminates the real property tax levy in its town-outside-village funds, it can then choose to allocate a portion of its sales tax money to its town-wide funds.

We found that the Town improperly budgeted and allocated its sales tax revenue. The Town and the Village receive separate sales tax distributions from the County. However, Town officials did not allocate the sales tax revenue to the town-outside-village funds³ to reduce the real property tax levies in these funds before allocating any remaining sales tax revenue to the town-wide funds. As a result, approximately \$188,000 in taxpayer inequities occurred from 2011 through 2014.

Specifically, from 2011 through 2013, Town officials allocated all of the Town's sales tax revenues, totaling more than \$143,000, to the town-wide general fund, while having real property tax levies in both of the town-outside-village funds. This practice continued in the 2014 fiscal year, for which the Board again accounted for about \$44,200 in sales tax revenue in the town-wide general fund.

This practice resulted in taxpayer inequity because those Town taxpayers residing outside the Village did not receive all the benefit they should have from the sales taxes received from the County. The Town's method of allocating sales taxes is not in compliance with statute. As a result, Town taxpayers with real property located in the Village received an extra benefit from the sales tax distributions at the expense of taxpayers with property located outside the Village.

The Supervisor told us that he was unaware that sales tax money was required to be allocated to the town-outside-village funds to reduce or eliminate the real property tax levy for these funds before it can be allocated to the town-wide general fund. Subsequent to our audit, in

³ Town-outside-village general and highway funds

the 2015 budget, the Town allocated \$40,000 in sales tax revenue to the town-outside-village highway fund.

Recommendations

The Board should:

1. Allocate sales tax revenues to the town-outside-village funds in compliance with statute.
2. Seek legal counsel to determine what remedies are available to address the inequities identified in this report.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF EASTON
1071 State Route 40
Greenwich, N.Y. 12834
Phone (518) 692-2678 Fax (518) 692-0212

January 20, 2015

[REDACTED]
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, N.Y. 12801

Re: Town of Easton Audit Response

Dear [REDACTED]

I had the opportunity to meet with [REDACTED] on January 6, 2015, for an exit discussion of an audit that was performed on the Town of Easton financial records from 2011 through 2014 focusing on sales tax distribution but also a general overview of our 2014 accounting practices for the whole town.

I agree with the report as far as content, but I don't agree with what you are implying from the wording that you use. In your report you state (\$187,000.00 of taxpayer inequity was found), but in reality the village portion of the Town is less than 10%, the inequity is less than \$18,000.00 if you divide by 4 years it's only \$4,500.00 a year. What the Town did was still wrong but you are misleading the taxpayers as to the magnitude.

As chief fiscal officer for the Town of Easton and having the opportunity in 2000 to work with your office when you performed an 8 month audit of our financial records I felt you left us trained and educated in our responsibility. At the time we were not receiving a sales tax refund from the county, but we were receiving a mortgage tax check from the county and state aid per-capita tax check from the State. At the time of that audit as well as this audit I was informed those monies could be deposited in the A fund, so you see how easy it was to use the A fund to deposit sales tax monies.

When I was informed by your auditor that this practice of using the A fund to deposit sales tax money is when a portion of the Town lies with in a village was not acceptable and as we were beginning our 2015 budget process, we chose to take corrective action by placing all sales tax revenue in the DB fund. At the time of our exit interview a certified copy of our 2015 Town Budget was provided to [REDACTED] for his inspection. I was also advised to seek legal counsel about our past practices on this matter and are in the process of doing so now.

See
Note 1
Page 9

TOWN OF EASTON
1071 State Route 40
Greenwich, N.Y. 12834
Phone (518) 692-2678 Fax (518) 692-0212

I would like to thank you for your help on matters of our town financial records and look forward to your next visit, but I must admit that it is confusing when you explain the term "double dipping" by the taxpayers within the village limits when it comes to sales tax money but not when it comes to other monies that are distributed to both the Town and Village. Possibly you could send a letter to all towns that have villages or portions of one and explain what monies are allowed under the double dipping rule and which ones are not.

Sincerely yours,

Daniel Shaw
Easton Town Supervisor

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

The \$187,000 in taxpayer inequities that occurred from 2011 through 2014 is accurate as stated in the report. The Town's 10 percent calculation relates to that portion of the Village located within the Town's borders and is not relevant to the proper sales tax allocation.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The goal of our audit was to assess the Town's budgeting practices related to the allocation of sales tax revenue received from the County. We performed an initial assessment of Town operations so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing and payroll and personal services.

During the initial assessment, we interviewed Town officials, performed limited tests of transactions and reviewed pertinent documents such as Board meeting 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 those areas most at risk. We selected the allocation of sales tax revenue for further audit testing.

We tested selected records and examined relevant documents for the period January 1, 2013 through June 30, 2014. We expanded our review to include the 2011 and 2012 years to provide background and perspective with the Town's allocation of sales tax revenue. To accomplish our objective and obtain valid audit evidence, we performed the following steps:

- We interviewed officials to obtain an understanding of budget preparation and the type of financial information the Board receives from the Supervisor.
- We reviewed the adopted budgets for the town-wide and town-outside-village funds for 2011 through 2014.
- We analyzed the budget versus actual results for 2011 through 2013.

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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