



Town of Milton

Financial Records and Reports and Sales Tax Revenues

Report of Examination

Period Covered:

January 1, 2013 — August 31, 2014

2014M-357



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 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 Milton, entitled Financial Records and Reports and Sales Tax Revenues. 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 Milton (Town) is located in Saratoga County (County), has a population of approximately 18,575 residents and includes the Village of Ballston Spa (Village) within its borders. The Town is governed by an elected five-member Town Board (Board), which comprises the Town Supervisor (Supervisor) and four Board members. The Board is responsible for general oversight of Town operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town money. The Town Comptroller (Comptroller)¹ is the accounting officer and has the overall responsibility for the Town accounting records and providing financial reports to the Board.

The Town's 2014 budgeted appropriations were approximately \$5.9 million, funded primarily with real property taxes and sales tax.

Scope and Objective

The objective of our audit was to review the Town's financial operations for the period January 1, 2013 through August 31, 2014. We extended our scope back to January 1, 2009 to review sales tax revenues. Our audit addressed the following related questions:

- Are the Town's accounting records and reports adequately maintained to allow Town officials to properly monitor the Town's financial operations and its overall financial condition?
- Are sales tax revenues budgeted and allocated properly to maintain equity among taxpayers?

Audit Results

The Town's accounting records were not adequately maintained. This precluded both the current and former Comptroller from providing the Board with complete and accurate monthly financial reports and preparing and filing an accurate 2013 annual financial report with the Office of the State Comptroller. As a result, the Board's ability to properly monitor Town financial operations and its overall financial condition is hindered and there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

The Town also improperly budgeted and allocated sales tax revenue. The Town and the Village receive separate sales tax distributions directly from the County. However, from at least 2009 through 2014

¹ The Town employed two individuals as Comptroller during our audit period. The current Comptroller began Town employment on March 24, 2014 and the former Comptroller was employed from the beginning of our audit period through March 29, 2014.

the Board did not allocate sales tax revenue to its part-town funds to eliminate property tax levies in those funds before allocating any remaining sales tax revenue to its town-wide funds. As a result, approximately \$610,000 in taxpayer inequities occurred because Town taxpayers residing outside the Village did not receive all the benefit they should have from the sales tax received from the County. Further, the Town's method of budgeting and allocating sales tax was 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 distributed at the expense of taxpayers with property located outside the Village.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Introduction

Background

The Town of Milton (Town) is located in Saratoga County (County), has a population of approximately 18,575 residents and includes the Village of Ballston Spa (Village) within its borders. The Town is governed by an elected five-member Town Board (Board), which comprises the Town Supervisor (Supervisor) and four Board members. The Board is responsible for general oversight of Town operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town money. The Town Comptroller (Comptroller)² is the accounting officer and has the overall responsibility for the Town's accounting records and providing financial reports to the Board.

The Town provides various services to its residents, including Town road maintenance and improvements, snow removal, public improvements, recreation and cultural activities and general governmental support. The Town's 2014 budgeted appropriations were approximately \$5.9 million, funded primarily with real property taxes and sales tax.

Objective

The objective of our audit was to review the Town's financial operations. Our audit addressed the following related questions:

- Are the Town's accounting records and reports adequately maintained to allow Town officials to properly monitor the Town's financial operations and its overall financial condition?
- Are sales tax revenues budgeted and allocated properly to maintain equity among taxpayers?

Scope and Methodology

We reviewed the Town's financial records for the period January 1, 2013 through August 31, 2014. We extended our scope back to January 1, 2009 to review sales tax revenues.

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

² The Town employed two individuals as Comptroller during our audit period. The current Comptroller began Town employment on March 24, 2014 and the former Comptroller was employed from the beginning of our audit period through March 29, 2014.

**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 generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the 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 Records and Reports

The Board is responsible for effective financial planning and overall Town management. To adequately perform these responsibilities, it is essential that the Comptroller maintain complete and accurate accounting records in a timely manner to properly account for and report the results of Town financial operations and financial condition. The Board needs this information to make well-informed decisions when preparing the annual budget and monitoring the budget, capital projects and the Town's financial health throughout the year.

The Town's accounting records were not adequately maintained. This precluded the current and former Comptroller from providing the Board with complete and accurate monthly financial reports and preparing and filing an accurate 2013 annual financial report (AUD) with the Office of the State Comptroller (OSC). As a result, the Board's ability to properly monitor Town financial operations and its overall financial condition is hindered and there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

Accounting Records

The Comptroller, as accounting officer, is responsible for maintaining accounting records that document the assets, liabilities, fund equity and results of operations (revenues and expenditures) for each Town fund. The accounting records must be maintained in a complete, accurate and timely manner.³ The Supervisor, as chief fiscal officer, must provide sufficient oversight to ensure that the records maintained are suitable to accurately present relevant financial information in a timely manner.

Neither the former nor the current Comptroller maintained complete, accurate and timely accounting records. Additionally, the Supervisor did not provide sufficient oversight of the Comptroller's duties related to maintaining the accounting records. Consequently, we found significant deficiencies with the Town's accounting records. For example, separate general ledgers were not maintained for each Town fund. Instead, all funds⁴ were accounted for in one combined general ledger.

³ Each fund is a fiscal accounting entity with a self-balancing set of accounts. The town-wide funds are the principal operating funds used to account for all Town-wide operations (including the Village). The part-town funds are 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.

⁴ The Town had 17 funds, which consisted of the following: town-wide general, part-town general, town-wide highway, part-town highway, special lighting district, nine water districts, miscellaneous, capital projects and trust and agency.

In addition, separate balance sheet accounts were not maintained for any of the Town's nine water districts. Instead all water district assets, liabilities and fund equity were recorded as one combined water district.

Furthermore, separate general ledger cash accounts were not maintained for various funds whose cash was commingled in the same bank accounts. For example, as of December 31, 2013, six Town bank accounts held money for the town-wide general, part-town general, town-wide highway, part-town highway, special lighting district, miscellaneous, capital projects and trust and agency funds,⁵ while in the accounting records the town-wide general fund used three cash accounts to account for these funds.

The former Comptroller stated he would allocate cash to each Town fund at year-end when preparing the Town's AUD filed with OSC.⁶ However, as a result, cash balances for each fund were not available to the Board and Town officials on a monthly basis. This prevented officials from being able to determine the financial condition of Town funds throughout the year.

We reviewed 20 balance sheet accounts recorded in the accounting records as of December 31, 2013 and August 31, 2014 to determine if they were properly recorded and adequately supported. We found that 16 accounts as of December 31, 2013 and August 31, 2014 were either not properly recorded, adequately supported or both. For example, we found the following accounting record discrepancies:

- The town-wide general, part-town general, town-wide highway, part-town highway and capital projects funds had a combined total negative accounts payable balance of \$38,718 recorded in the accounting records as of December 31, 2013.⁷ We determined that the combined total accounts payable balance⁸ should have been \$365,843. As a result, the accounts payable balances for these funds were understated by a combined total of more than \$404,000. Further, the town-wide general fund had this same \$38,718 negative balance recorded in the accounting records as of August 31, 2014.

⁵ As of August 31, 2014, trust and agency fund cash was held in separate bank accounts and was properly recorded in the accounting records.

⁶ See Financial Reports section of the report.

⁷ All of these funds had a recorded accounts payable balance of \$0 except the town-wide general fund, which had a negative accounts payable balance of \$38,718.

⁸ We reviewed all claims that were paid during the first three months of 2014 (a 90-day period) for all Town funds to determine if any were for expenditures incurred during 2013 that should have been recorded as accounts payable at the end of 2013.

- The town-wide general, part-town general, town-wide highway and part-town highway funds had a combined total compensated absence liability balance of \$54,360 recorded in the accounting records as of December 31, 2013 and August 31, 2014. We determined that the liability balance should have been \$0 for all of these funds. As a result, the liabilities for these funds were overstated by a combined total of \$54,360. This occurred because the liability balances have not been updated since the 2009 fiscal year.
- One water district had an interfund liability of \$104,942 recorded in the accounting records as of December 31, 2013 and August 31, 2014. We determined the interfund liability should have been \$55,281 as of December 31, 2013 and \$40,230 as of August 31, 2014. As a result, this liability was overstated by more than \$49,000 as of December 31, 2013 and more than \$64,000 as of August 31, 2014. This occurred because the liability balance has not been updated since the 2009 fiscal year.

We also reviewed all real property tax and sales tax revenue accounts and 10 expenditure accounts that were recorded in the accounting records as of December 31, 2013 and August 31, 2014 to determine if they were adequately supported and recorded in the proper funds.

We found that real property tax revenues were adequately supported and recorded in the proper funds. However, although sales tax revenues were adequately supported, these revenues were not recorded in the proper funds.⁹ Further, three expenditure accounts totaling \$285,780 as of December 31, 2013 and five expenditure accounts totaling \$149,270 as of August 31, 2014 were either not adequately supported or not recorded in the proper fund.

For example, as of December 31, 2013, capital projects fund expenditures were understated by approximately \$5,500 because expenditures related to the Town Center capital project were recorded in the part-town highway fund instead of the capital projects fund. Similarly, as of August 31, 2014, four expenditure accounts were overstated by a combined total of approximately \$33,000 because expenditures related to this same capital project were recorded in three other funds.¹⁰ As a result of these discrepancies, the capital projects fund expenditure account we reviewed was understated by approximately \$33,000.

⁹ See Sales Tax Revenues section of the report.

¹⁰ The expenditure accounts we reviewed consisted of one from the town-wide general fund, one from the town-wide highway fund and two from the part-town highway fund.

Because the current and former Comptroller failed to maintain adequate accounting records, the records were incomplete, inaccurate and unreliable. This failure prevented the Board from being able to determine the true financial condition of the Town's operating funds and capital project. In addition, commingling cash without maintaining accurate records and accountability over each fund's cash balance increases the risk that one fund's cash could be used to finance another fund's operations.

Without a reliable basis for Town officials to monitor financial activity and make informed financial decisions, the Town is at risk of having financial inefficiencies and fiscal stress and could overexpend its capital projects if these deficiencies are not addressed in a timely manner.

Financial Reports

The Board needs complete, accurate and current financial information to effectively monitor the Town's financial operations and financial condition. The Comptroller should submit a monthly financial report to the Board that includes comparisons of actual revenues and expenditures with the amounts estimated in the annual budget (budget status reports) and reconciled cash balances for each fund. Because the Board is responsible for monitoring the financial status of individual capital projects, it should receive monthly financial reports comparing actual revenues and expenditures for each capital project with the related budget as well.

The Supervisor should ensure that the financial information presented in the AUD¹¹ by the Comptroller is accurate and supported by the accounting records. Because the Board is ultimately responsible for the Town's financial operations, it should require the Comptroller to present complete and accurate financial reports.

Monthly Reports – The Comptroller did not provide the Board with adequate monthly financial reports to enable it to effectively monitor the Town's financial activity nor did the Board request any additional information. Although the Board received monthly budget status reports for the Town's operating funds and the Town Center capital project, the reports were inaccurate.¹²

In addition, the monthly budget status reports for the Town Center capital project did not include a comparison of actual revenues and expenditures with the related budget. Instead, the year-to-date revenues and expenditures were compared with the current fiscal year budget. As a result, the Board could not effectively monitor this capital project or ensure that expenditures did not exceed the

¹¹ The Comptroller is required to prepare and file an AUD of the Town's financial condition with OSC within 90 days after the close of the fiscal year.

¹² See Accounting Records section of the report.

approved budgetary authorization. Furthermore, because separate cash accounts were not maintained in the accounting records for the various funds, the Comptroller could not provide the Board with a monthly report showing the reconciled cash balances for each fund.

The Comptroller's failure to provide complete and accurate monthly financial reports to the Board hinders its ability to exercise financial oversight and increases the risk that errors or irregularities could occur and remain undetected and uncorrected.

Annual Financial Report – We compared 20 revenue accounts and 20 expenditure accounts recorded in the Town's 2013 AUD with the corresponding balances in the accounting records to determine whether they agreed. We found that all of these accounts agreed. However, our review of 25 balance sheet accounts disclosed that the amounts for 17 balance sheet accounts reported on the AUD did not agree with the accounting records.

For example, the AUD showed approximately \$1.1 million in cash-in-time deposits for the town-wide general fund, but the accounting records showed a balance of approximately \$3.6 million, a variance of more than \$2.5 million. In addition, the AUD showed an accounts payable balance in the town-wide general fund of \$25,538, but the accounting records showed a negative balance of \$38,718, a variance of more than \$64,000.

These discrepancies occurred because the former Comptroller did not use the balance sheet account balances recorded in the accounting records to prepare the AUD. The former Comptroller told us the principal account clerk (clerk)¹³ provided him with separate receivable and liability balances for each fund which did not agree with or were not recorded in the accounting records. The former Comptroller also told us he was unaware of how the clerk calculated these balances and that the clerk did not provide any documentation to support the balances.

The former Comptroller further stated that, to prepare the AUD, he first determined the current year's ending fund balance for each fund by using the prior year's ending fund balance as recorded in the prior year's AUD. The former Comptroller said he began with the prior year's balances, added the current year's revenues and subtracted the current year's expenditures (obtained from the accounting records) to calculate the current year's ending fund balances for each fund.

To compute each fund's cash balance, the former Comptroller used the current year's ending fund balance for each fund (previously

¹³ The clerk, who worked under the Comptroller's direction, was employed at the Town through March 29, 2014.

calculated), added any liability balances and subtracted any receivable balances provided by the clerk. He reported the results of this calculation as the cash balances on the AUD.

However, by using this methodology, the financial data presented in the AUD was neither supported by nor agreed with the accounting records. In addition, if any financial data (i.e., revenues, expenditures, receivables and liabilities) was inaccurately recorded in the AUD for any fund, this would also result in inaccurate financial data for the other funds reported.

Because of the methodology used for preparing the Town's 2013 AUD, we reviewed 20 balance sheet accounts reported on the 2013 AUD to determine if they were properly recorded and adequately supported. We found that 18 balance sheet accounts were either not properly recorded or adequately supported or both. For example, the part-town highway fund had an accounts payable balance of \$87,586 reported on the AUD, although we determined that the accounts payable balance should have been \$1,840. As a result, the part-town highway fund's accounts payable balance was overstated by about \$85,700.

In addition, the AUD showed a town-wide general fund interfund liability balance¹⁴ of \$78,340, although we determined that the interfund liability balance should have been \$114,416.¹⁵ As a result, the town-wide general fund's interfund liability was understated by approximately \$36,000.

We found that the combined total of the nine cash balances recorded in the AUD agreed with the corresponding adjusted bank balances as of December 31, 2013. However, because Town officials combined the various funds' cash in the same bank account and lacked separate general ledger cash accounts for each fund, there was nothing to support each of the funds' reported cash balance in the AUD. Additionally, based on the former Comptroller's methodology for allocating cash balances and because we found that non-cash assets and liabilities were not accurately recorded in the AUD for each fund, the reported cash balances on the AUD were not accurate for all funds.

¹⁴ Cash being held by the Town for building escrow accounts was included in the cash recorded in the town-wide general fund, with a corresponding interfund liability recorded in the town-wide general fund, indicating the amount owed to the trust and agency fund. A corresponding interfund receivable was recorded in the trust and agency fund.

¹⁵ The accounting records for the trust and agency fund contained additional building escrow account liabilities of about \$78,200. However, because the Town did not maintain separate bank accounts and supporting records for these balances, we were unable to verify the accuracy of these liabilities.

The former Comptroller's failure to prepare an accurate AUD hindered the Board's ability to monitor the Town's financial operations. In addition, it prevented the Board, taxpayers and other interested parties access to reliable financial information which can be used to measure the effectiveness of operations and the Town's overall fiscal health.

Recommendations

The Comptroller should:

1. Ensure that the Town's accounting records are complete, accurate and maintained in a timely manner.
2. Prepare and provide the Board with monthly financial reports that compare actual revenues and expenditures with the related budget and include reconciled cash balances.

The Supervisor should:

3. More effectively monitor the Comptroller's duties to ensure that the accounting records are adequately maintained.
4. Ensure that the financial information presented in the AUD prepared by the Comptroller is accurate and supported by the accounting records.

The Board and Comptroller should:

5. Ensure that the accounting records are adjusted to properly reflect correct account balances.

Sales Tax Revenues

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 (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 directly from the county, the town must use the sales tax to reduce real property taxes for the part-town funds. If a town eliminates the real property tax levy in its part-town funds, it can then choose to allocate a portion of its remaining sales tax revenues to reduce real property taxes for its town-wide funds, to reduce the county real property taxes levied in the area of the town outside the village or to fund additional part-town activities, or any combination of these options.

We found that the Town improperly budgeted and allocated its sales tax revenue. The Town and the Village receive separate sales tax distributions directly from the County. However, from at least 2009 through 2014, the Board did not allocate sales tax revenue to its part-town funds to eliminate property tax levies in those funds before allocating any remaining sales tax revenue to its town-wide funds. As a result, approximately \$610,000 in taxpayer inequities occurred.

Specifically, from January 1, 2009 through August 31, 2014, the County distributed more than \$14.7 million in sales tax revenues to the Town, of which approximately \$7.5 million was allocated to the town-wide funds. However, during the same period, the Board levied real property taxes totaling approximately \$610,000 in the part-town general fund.¹⁶ Thus, Town officials allocated sales tax revenues to the town-wide funds before using such revenue to eliminate the property tax levy in the part-town 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 tax revenues received from the County. The Town's method of budgeting and allocating sales tax revenue was 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 distributed at the expense of taxpayers with property located outside the Village.

¹⁶ The part-town highway fund did not have a real property tax levy from 2009 through 2014.

Town officials stated that this occurred because they were not aware of the statutory requirement to allocate sales tax revenues to the part-town funds to eliminate the real property tax levy for these funds before they can be allocated to the town-wide funds.

Recommendations

The Board should:

6. Budget and account for sales tax revenues in compliance with statute.
7. Consult with its legal counsel to determine what remedies are available to address the taxpayer inequities identified in this report.

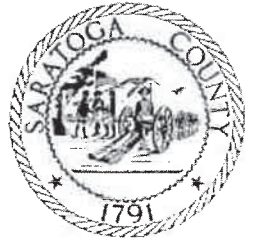
APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



SUPERVISOR
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Ballston Spa, New York 12020
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March 12, 2015

Jeffrey P. Leonard, CPA
Chief Examiner
NYS Office of the State Comptroller
Division of Local Government
One Broad Street
Glens Falls, NY 12801

Dear Mr. Leonard:

This letter is in response to the Report of Examination of the Town of Milton Financial Records and Reports and Sales Tax Revenues for the period January 1, 2013 through August 31, 2014.

The Town Board and I appreciate your cooperation and assistance throughout the entire audit process. We have included with this response letter our Corrective Action Plan to address each of your recommendations while maintaining fiscal responsibility to the residents of the Town of Milton.

We recognize that accurate accounting records are the foundation of any business operation and we have implemented computer hardware and software upgrades to assist with maintaining accurate and timely accounting records.

The members of the Town Board have an open dialogue with the Comptroller's Office and will continue to work closely with the Comptroller to better oversee the financial operations of the Town of Milton.

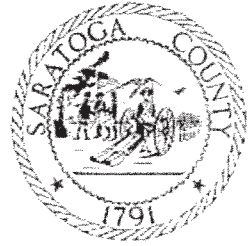
In closing, the Town Board and I understand the limited resources of our taxpayers and have worked hard to keep tax rates stable while meeting the needs of our community.

Sincerely,

Daniel P. Lewza
Supervisor



SUPERVISOR
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Town of Milton
Corrective Action Plan
Office of the State Comptroller (OSC) File Number 2014M-357

1. OSC Audit Recommendation: The Comptroller should ensure the Town's accounting records are complete, accurate and maintained in a timely manner.

The Town's Comptroller upgraded the Town's accounting software in May of 2014. The Town Board also approved the Comptroller's request for an upgrade to the time clocks used for time recording in June 2014. The Town's payroll has been outsourced as of January 2015, replacing outdated and out of service software and hardware previously used to process payroll and other accounting reports.

This has improved the accuracy of accounting information and the timely preparation of accounting reports and payroll reporting. The Town Board has procured an annual external audit of the Town's accounting records beginning for the year ended December 31, 2014.

2. OSC Audit Recommendation: The Comptroller should prepare and provide the Board with monthly financial reports that compare actual revenues and expenditures with the related budget and include reconciled cash balances.

The Comptroller provides the Town Board members with a monthly report that lists actual revenues and expenditures, and compares these numbers to the appropriate budget line item. The Comptroller's office will work to develop user friendly reports that each Board member can utilize in their decision making and governance of Town affairs.

3. OSC Audit Recommendation: The Supervisor should more effectively monitor the Comptroller's duties to ensure the accounting records are adequately maintained.

The Comptroller has worked closely with the Supervisor to more readily communicate financial information. The Supervisor receives a monthly report containing bank account and investment account balances. The Comptroller has recommended that the bank reconciliations prepared by the Town's comptroller be reviewed by the Supervisor to ensure that the cash accounts that are reported by funds are supported by the bank reconciliations.

4. OSC Audit Recommendation: The Supervisor should ensure that the financial information presented in the AUD prepared by the Comptroller is accurate and supported by the accounting records.

The Town Comptroller has revised many internal procedures relating to the recording and reporting of financial transactions to support the accounting records of the Town. The upgrade in accounting software and outsourcing of the payroll process also contributes to maintaining accurate accounting records. All accounts reported on the 2014 Annual Financial Reporting Update Document (AUD) will be supported by the underlying accounts maintained in the Town's financial accounting system.

5. OSC Audit Recommendation: The Board and Comptroller should ensure that the accounting records are adjusted to properly reflect correct account balances.

The Comptroller has begun an analysis of the accounting for 2013 activity to ensure that the Town's fund balances carry forward into 2014 properly. Beginning in the year ended December 31, 2014, the Town will have an annual external audit to ensure that its accounting records reflect correct balances.

6. OSC Audit Recommendation: The Board should budget and account for sales tax revenues in compliance with statute.

The Town Board has been made aware of the statute requirements of allocating sales tax revenues. Sales tax revenues for 2014 and for 2015 have been properly allocated in accordance with statute. The Board will conduct its due diligence, along with legal counsel, to determine the least amount of impact this will have upon all taxpayers within the Town.

7. OSC Audit Recommendation: The Board should consult with its legal counsel to determine what remedies are available to address the taxpayer inequities identified in this report.

The Board will conduct its due diligence, along with its legal counsel, to determine the least amount of impact this will have upon all taxpayers within the Town.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of internal controls put in place 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.

During the initial assessment, we interviewed Town officials, performed tests of transactions and reviewed pertinent documents, such as Town policies, 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 and professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial records and reports and sales tax revenues for further audit testing.

To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

Financial Records and Reports:

- We interviewed Town officials and reviewed various financial records and reports to gain an understanding of the procedures over the recording and reporting of financial transactions.
- We reviewed the Town's accounting records as of December 31, 2013 and August 31, 2014 to verify that separate general ledgers were maintained for each fund and that separate general ledger cash accounts were maintained for each fund.
- We reviewed 20 balance sheet accounts recorded in the accounting records as of December 31, 2013 and as of August 31, 2014 to determine if they were properly recorded and adequately supported. We chose our samples by selecting all cash accounts and other assets and liabilities that were recorded throughout the Town's funds. When we selected these accounts for our samples, we had no expectation that more or fewer errors would occur in the sample accounts than in any other account.
- We reviewed 13 revenue accounts as of December 31, 2013 and nine revenue accounts as August 31, 2014 that were recorded in the accounting records to determine if they were adequately supported and recorded in the proper fund. Our samples consisted of all real property tax and sales tax accounts.
- We reviewed 10 expenditure accounts that were recorded in the accounting records as of December 31, 2013 and August 31, 2014 to determine if they were adequately supported and recorded in the proper fund. Our samples included two expenditure accounts from each of the following funds: town-wide general, part-town general, town-wide highway and part-town highway. Our samples also included the one expenditure account recorded in the Town's

special lighting district and capital projects fund. When we selected these accounts for our samples, we had no expectation that more or fewer errors would occur in the sample accounts than in any other account.

- We assessed the adequacy of the monthly financial reports the Comptroller provided to the Board.
- We compared 20 revenue accounts and 20 expenditure accounts reported on the Town's 2013 AUD with the corresponding balances in the accounting records to determine whether they agreed. Our sample consisted of the largest revenue and expenditure accounts recorded for the town-wide general, part-town general, town-wide highway, part-town highway, special lighting district, water districts and capital projects funds.
- We compared 25 balances sheet accounts reported on the Town's 2013 AUD with the corresponding balances in the accounting records to determine whether they agreed. Our sample included all balance sheet accounts, except fund equity accounts, for the town-wide general, part-town general, town-wide highway, part-town highway, special lighting district, water districts and capital projects funds.
- We reviewed 20 balance sheet accounts reported on the Town's 2013 AUD to determine if they were properly recorded and adequately supported. We chose our sample by selecting all cash accounts and other assets and liabilities that were recorded throughout the Town's funds. When we selected these accounts for our sample, we had no expectation that more or fewer errors would occur in the sample accounts than in any other account.

Sales Tax Revenues:

- We interviewed Village and County officials and reviewed documentation from the County of the amount of sales tax distributed to the Village to verify that the Village received sales tax distributions directly from the County.
- We interviewed Town officials and reviewed the Town's adopted budgets, the Town's accounting records, the County tax warrants and County sales tax payment documentation for the amounts distributed to the Town to determine if sales tax revenues were budgeted and allocated in accordance with the Tax Law to maintain equity among taxpayers during the 2009 through 2014 fiscal years. We determined the effect of any discrepancies.

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

APPENDIX C

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