



Town of Wright Financial Operations

Report of Examination

Period Covered:

January 1, 2013 — June 30, 2014

2014M-277



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
EXECUTIVE SUMMARY	2
INTRODUCTION	4
Background	4
Objectives	4
Scope and Methodology	4
Comments of Local Officials and Corrective Action	5
FUND BALANCE	6
Recommendation	8
PURCHASING AND DISBURSEMENTS	9
Recommendations	11
APPENDIX A Response From Local Officials	12
APPENDIX B Audit Methodology and Standards	14
APPENDIX C How to Obtain Additional Copies of the Report	15
APPENDIX D Local Regional Office Listing	16

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 Wright, entitled Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the 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 Wright (Town) is located in Schoharie County and provides various services for its residents, including street maintenance, refuse management and general government support. The Town's 2014 general fund budget of \$300,000 is funded primarily by real property taxes, payments in lieu of taxes and sales tax. During the scope period, total non-payroll expenditures in the general and highway funds were \$1,432,229. The Town is governed by an elected Town Board (Board) which comprises the Town Supervisor (Supervisor) and four Board members. The Supervisor, as chief fiscal officer, is responsible for the day-to-day management of the Town. The Supervisor has hired a bookkeeper to perform accounting functions and to maintain accounting records. The prior Supervisor was in office until February 2013. The Deputy Supervisor assumed the duties of Supervisor until being voted into office in November 2013.

Scope and Objectives

The objectives of our audit were to review the Town's budget planning and financial management for the period January 1, 2013 through June 30, 2014. We extended our review back to January 1, 2011 to analyze budget planning and forward to the 2015 budget to assess its reasonableness. Our audit addressed the following related questions:

- Did the Board properly manage the Town's general fund balance?
- Did the Board ensure that all purchases were at the best price and all disbursements were for proper Town purposes?

Audit Results

The Town Board did not properly manage the Town's general fund balance from 2011 through 2014. For those years, the Board adopted unrealistic budgets that were essentially the same budgets year after year. As a result, the Board accumulated general fund balance while raising taxes. However, beginning with the 2015 budget, the Board plans to reduce the general fund balance to benefit taxpayers. To do so, it is cutting the general fund tax levy by 90 percent and appropriating \$187,000 of fund balance. However, the general fund tax levy reduction coincides with an increase in the highway fund tax levy of over 30 percent, or \$121,942. If the Board does not create realistic budgets, there is an increased risk that moneys will not be used to benefit taxpayers.

The Board did not ensure that purchases were at the best price and all disbursements were for proper Town purposes. There was no evidence that quotes were obtained from more than one party for foreseen

purchases of less than \$2,500, or that pre-approval from the Board was obtained for purchases over \$2,500, as required by Board resolution. In addition, no one verified that checks were for proper Town purposes or independently reviewed bank reconciliations. Further, the Board did not perform an annual audit of the Supervisor's books and records. We tested for compliance with competitive bidding requirements and business interests of Town officials, scanned check disbursements totaling \$2,604,057 and scanned non-check disbursements totaling \$2,031. Although we found no material exceptions, there is an increased risk that goods and services will not be obtained at a competitive price or that the bookkeeper, who has custody of the check stock, could disburse funds without the Board's knowledge.

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 Wright (Town) is located in Schoharie County, has a population of approximately 1,540 as of the 2010 census, and covers an area of 29 square miles. The Town provides various services for its residents, including street maintenance, refuse management and general government support. The Town's 2014 general fund budget of \$300,000 is funded primarily by real property taxes, payments in lieu of taxes and sales tax. During the scope period, total non-payroll expenditures in the general and highway funds were \$1,432,229.¹

The Town is governed by an elected Town Board (Board) which comprises the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the day-to-day management of the Town, including performing basic accounting functions and maintaining accounting records, under the direction of the Board. The Supervisor has hired a bookkeeper to perform accounting functions and to maintain accounting records. The prior Supervisor was in office at the beginning of our scope period until February 2013. The Deputy Supervisor assumed the duties of Supervisor until being voted into office in November 2013.

Objectives

The objectives of our audit were to review the Town's budget planning and financial management. Our audit addressed the following related questions:

- Did the Board properly manage the Town's general fund balance?
- Did the Board ensure that all purchases were at the best price and all disbursements were for proper Town purposes?

Scope and Methodology

We examined the Town's fund balance, purchasing and disbursements for the period January 1, 2013 through June 30, 2014. We extended our review back to January 1, 2011 to analyze budget planning and forward to the 2015 budget to assess its reasonableness.

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.

¹ These expenses include purchases of a capital nature, and materials and supplies for various Town purposes.

**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 Clerk's office.

Fund Balance

The Board is responsible for making sound financial decisions that balance the level of services desired and expected by the Town's residents with the ability and willingness of the residents to pay for such services. The Board should adopt budgets that include realistic estimates of revenues and expenditures and that use surplus fund balance as a funding source, when appropriate. The Board may retain a reasonable portion of unexpended surplus funds to be available in the event of unforeseen circumstances. The Board may also establish and place moneys into reserve funds to finance the future costs of a variety of items or purposes.

Beginning with the 2015 budget, the Board has reduced the general fund tax levy and appropriated unassigned fund balance to use the accumulated general fund balance to benefit taxpayers. However, from 2011 through 2014, the Board did not properly manage the Town's general fund balance when it accumulated general fund balance while raising taxes. At the end of the 2011 fiscal year, unassigned general fund balance was \$348,482, or 120 percent of the next year's appropriations, which is excessive. After the following two fiscal years, the general fund unassigned fund balance grew to \$381,552 or 127 percent of the next year's appropriations. While the Town has set aside \$83,000 in informal reserves, this money is not legally restricted and therefore is available for appropriation and is included in the unassigned fund balance figures above.

The accumulation of fund balance prior to 2015 occurred because the Board members did not adopt realistic budgets. Under the prior Supervisor (until February 2013), the budget process was guided largely by the Supervisor. Although budget workshops were held, the input from other Board members and from department heads was subordinated to the prior Supervisor's plan. The prior Supervisor's budgets did not consider prior years' actual results or current and future known needs and were essentially the same budgets year after year.

Prior to the 2015 fiscal year, the Town's last four budgets generated \$326,458 in budgetary surpluses,² as follows:

² A budgetary surplus occurs when revenues are underestimated and/or expenditures are overestimated.

Figure 1: General Fund Budget Variances

	Fiscal Year End 2011	Fiscal Year End 2012	Fiscal Year End 2013	Projected Fiscal Year End 2014	Total	Average
Budgeted Revenues	\$229,762	\$226,333	\$233,199	\$234,230	\$923,524	\$230,881
Actual Revenues	\$259,588	\$251,896	\$264,798	\$237,980	\$1,014,262	\$253,565
Underestimated Revenues	\$29,826	\$25,563	\$31,599	\$3,750	\$90,738	\$22,684
Budgeted Appropriations	\$290,202	\$291,333	\$297,199	\$299,301	\$1,178,035	\$294,509
Actual Expenditures	\$218,881	\$230,888	\$252,665	\$239,881	\$942,315	\$235,579
Overestimated Expenditures	\$71,321	\$60,445	\$44,534	\$59,420	\$235,720	\$58,930
Total Budget Variance	\$101,147	\$86,008	\$76,133	\$63,170	\$326,458	\$81,614

In prior years, the Board members tried to offset the real property tax levies by appropriating fund balance in the budgets, but the Board did not achieve this due to unrealistic budgets. Although the Board members appropriated an average of \$63,000 per year in fund balance, the fund balance was not used because of the budget variances that averaged \$81,614 per year as shown in Figure 1 above. The use of fund balance as a budgetary funding source only occurs when the fund experiences an operating deficit.

Under the current Supervisor, the process has become more receptive to department head input. However, the first budget created by the current Supervisor for 2014 did not change significantly from the prior year because the current Supervisor was not willing to make significant changes before becoming more familiar with the budgeting process and the Town's needs. In 2015, the Board is taking steps to reduce the excessive fund balance in the general fund by cutting the general fund tax levy by almost 90 percent from \$124,072 in 2014 to \$12,753 in 2015 and appropriating \$187,000³ of unassigned fund balance. Combined with the projected deficit in 2014, this should reduce general fund balance in 2015 if the budgetary appropriations for 2015 are realistic and an operating deficit occurs in 2015.⁴ However, the general fund tax levy reduction coincides with an increase in the highway fund tax levy of over 30 percent, or \$121,942. If the Board does not create realistic budgets, there is an increased risk that tax levies will be higher than necessary or that moneys will not be available to provide intended services.

³ This is an increase of \$122,000 over the previous year's appropriated general fund balance, while the general fund tax levy decreased by \$111,319.

⁴ The 2015 budget has not changed significantly from the 2014 budget in terms of appropriations and non-property tax revenues, and the budget may therefore still not be realistic for those accounts.

Recommendation

The Board should:

1. Adopt realistic budgets based on prior years' actual results and current and future known needs.

Purchasing and Disbursements

The Board is responsible for adopting policies that describe its goals for procurements, including formal procurement policies and procedures⁵ that govern the acquisition of goods and services not required by law to be competitively bid.⁶ The Board, during its required audit of claims against the Town, is responsible for ensuring that claims contain evidence of compliance with established procurement guidelines. This control helps ensure that the Town obtains quality commodities and services at the lowest possible cost. The Supervisor, as chief fiscal officer, is primarily responsible for establishing controls over cash disbursements. Included in such a control system is the proper segregation of duties to ensure that no one person controls all phases of a transaction and providing for the work of one employee to be verified by another employee in the course of his or her duties. If it is not feasible to segregate duties, Town officials must institute compensating controls, such as enhanced management oversight. The Board also has certain powers and duties with respect to overseeing the financial affairs of the Town, including a requirement to audit the records and reports of the Supervisor at least annually.

Purchasing Policy – The Board has not adopted a formal procurement policy. Alternatively, the Board has passed a resolution requiring the Highway Superintendent to obtain quotes from more than one party for foreseen purchases of less than \$2,500 and to obtain pre-approval from the Board for all purchases over \$2,500 using an expense authorization form. We found no evidence that quotes were obtained during the scope period⁷ and no evidence that expenditures over \$2,500 were pre-approved by the Board using the expense authorization form. The Board has not adopted a purchasing policy or procedures for all purchases because it believed that the highway purchasing procedures were sufficient and merely relied on the Supervisor and Highway Superintendent to make purchases at the best price. Absent a more complete policy, questions will arise regarding the requirements for price competition and necessary support for purchases made by Town employees.

⁵ In some cases, the initial policies and updates will be drafted by procurement officials for the Board's review and eventual approval.

⁶ In general, the General Municipal Law (GML) requires purchases of goods over \$20,000 and purchases of services over \$35,000 to be competitively bid. There are some exceptions, such as making a purchase through State or County contracts, or making an emergency purchase.

⁷ The Highway Superintendent provided evidence that he was currently retaining documentation that quotes were obtained.

Claims Audit – The Board members audited and approved all claims presented to them. However, the Board approved claims totaling \$430,211 for highway-related goods and services without any evidence the purchases were in compliance with their adopted procurement resolution. The Highway Superintendent told us that documentation of quotes obtained during the scope period was disposed of. Without ensuring adherence to Board-adopted procedures already in place, there is no assurance that Town officials are obtaining goods and services at a competitive price.

Disbursements – While the Board audits each bill, it does not verify that the checks that cleared the bank are for proper Town purposes, as no one reviews canceled check images or bank transfers. The Board also does not verify whether purchases over \$2,500 have expense authorization forms, in accordance with its resolution. Further, no one independently reviews the bank reconciliations nor does the Board perform an annual audit of the Supervisor’s books and records. Therefore, the bookkeeper, who has custody of the check stock, could disburse funds without the Board’s knowledge.

The above deficiencies occurred because the Supervisor and Board were unaware that they were required to perform certain duties. For example, the Supervisor was not aware she should review canceled check images and compare canceled check images to approved abstracts, and the Board was not aware it should perform an annual audit of the Supervisor’s books and records or that it was required to request expense authorization forms. As a result of these deficiencies, we tested purchases in the amount of \$20,000 or more to determine if they complied with competitive bidding requirements and verified that Town officials did not have any employment or business interests with Town vendors. We also scanned all 1,342 audit period check disbursements, totaling \$2,604,057, to verify that the checks were signed by the Supervisor. Further, we traced 12 check disbursements totaling \$5,348 to supporting documentation to verify that they were for Town purposes and verified that all 216 non-check disbursements,⁸ totaling \$2,031,711, were to the Town’s other bank accounts, to the Internal Revenue Service or for bank fees.

While we found no material exceptions, there is a risk that the bookkeeper could disburse funds for inappropriate purposes without Board knowledge.

⁸ Non-check disbursements include transfers of moneys from one Town bank account to another, electronic payments of payroll taxes to the IRS and electronic payments of bank fees for purchases of check stock.

Recommendations

The Board should:

2. Adopt a formal procurement policy and monitor compliance.
3. Perform an annual audit of the Supervisor's books and records.

The Supervisor should:

4. Implement compensating controls, such as reviewing canceled check images and comparing canceled check images to approved abstracts.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



STATE OF NEW YORK

TOWN OF WRIGHT

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GALLUPVILLE, NY 12073
TELEPHONE (518) 872-9726
FAX (518) 872-2137



March 2015

Dear Auditors of New York State:

First off let me say thank you for the courtesy and professionalism you showed during the town auditing process. I enjoyed the opportunity to work closely with your department. I would like to take this time to make the following comments based on the results of our recent audit:

As the town supervisor I feel that we maintained a healthy fund balance. With this balance we were able to fund our Murphy road FEMA project. By doing this we save the town interest on a million dollar reconstruction. We did not receive the reimbursement money from FEMA in time for the 2015 budget, therefore the highway fund was needed to subsidize the 2015 budget instead of the general fund. This created the 90/30 percent tax levy between the two funds (general/highway).

During the auditing process I had the opportunity to speak in person about the variances in our budget between the years of 2011-13. As a result of catastrophic flood damage, sales on goods throughout the county for rebuilding projects generated larger sales tax revenue. This resulted in higher ending revenue than originally estimated. The 2011 flood gave us the opportunity to utilize FEMA money instead of our highway appropriations. The town was able to leverage our own employees to complete many smaller projects leading to an end result of over- estimated expenditures.

The town audit has brought to light some points of interest that we have acted on and will continue to improve on moving forward.

Prior to meeting with you, our fund balance did not contain capital reserves. Since then, the board has created three capital reserve funds; building, highway equipment, and recreational. As supervisor I am working with the county on rewriting their policies and procedures and will work to utilize those changes in developing our town's procurement policy. The board is currently auditing the supervisor's books monthly to make them more accurate for the annual audit. In response to reviewing cancelled check images, I now initial all images prior to the Board reviewing them(as part of the supervisors audit) before delivering to the town accountant.

My goal as both Supervisor and taxpayer is to keep a fair and efficient budget under the 2% tax cap, while still providing as many services as possible. I believe strongly in maintaining a consistent budget that provides taxpayers the courtesy of knowing what to expect year after year. With the recommendations from the Comptroller's office I am excited to see the Town of Wright continue on a productive path.

Sincerely,

Amber L. Bleau, Town of Wright Supervisor

***Town Supervisor-Amber Bleau * Highway Superintendent-Jeff Proper * Town Clerk-Lynn Herzog
Town Councilmembers: Thomas Aulita, George Karlewicz, Alex Luniewski & Ed Thornton
Sole Assessor-Susan Frazier * Code Enforcement Officer-Lloyd Stannard***

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objectives, we interviewed appropriate Town officials and employees, tested selected records and examined pertinent documents for the period January 1, 2013 through June 30, 2014. We expanded our review back to 2011 to analyze budget planning. Our examination included the following:

- We interviewed Town officials and employees and reviewed monthly reports to the Board and Board minutes of monthly meetings to gain an understanding of Town operations.
- We compared adopted budgets for 2011, 2012 and 2013 to the corresponding years' annual update documents (AUD) data for all line items and calculated the percentage and dollar variances between the AUDs and the budgets. For each percentage variance of more than 10 percent with a dollar variance over \$100, we asked the Supervisor and bookkeeper about the cause of the variance.
- We compared the 2012, 2013 and 2014 adopted budgets with the adopted budgets and AUDs from the prior years (2011, 2012 and 2013) for all line items. We calculated the dollar variances of the budgets from the prior years' budgets and AUDs. We compared the two variances and determined whether the adopted budgets were closer to the prior year's budgets or prior years' actual revenues or expenditures.
- We reviewed the 2015 adopted budget and compared it to the 2014 adopted budget and 2014 projected revenues and expenditures to assess the reasonableness of the budget.
- We identified all checks that cleared the bank in the amount of \$20,000 or more and tested whether the purchases were bid out if subject to GML or whether they were on State or County contract, through a preferred source, were emergency purchases, were for insurance or otherwise were subject to GML.
- We created a list of all vendors the Town paid and tested whether Town officials responsible for purchasing decisions had any employment or business interests in those vendors.
- We reviewed all check disbursements and all non-check disbursements to determine whether disbursements were made for Town purposes.
- We located all 26 items bought in two large high-risk purchases totaling \$2,450 on Town premises and obtained evidence that the purchased items were for Town purposes.

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

APPENDIX C

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