



Town of Dresden

Financial Condition and Town Clerk Operations

Report of Examination

Period Covered:

January 1, 2012 – May 31, 2016

2016M-369



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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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 Dresden, entitled Financial Condition and Town Clerk Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the 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 Dresden (Town) is located in Washington County and has a population of approximately 330 year-round residents (summer residents increase the population to approximately 3,000). The Town is governed by an elected five-member Town Board (Board), which consists of the Town Supervisor and four Council members. The Board is responsible for the general oversight of the Town's operations and finances. The Board is also responsible for auditing the records of all Town officers and employees who handle cash.

The Town provides various services to its residents, including highway maintenance, snow removal, sewer service and general governmental support. These services are financed primarily by real property taxes, sewer rents and State aid. Budgeted appropriations were \$1.1 million for both 2015 and 2016.

The Town Clerk (Clerk) collects money for a variety of items and services provided by the Town and New York State, including annual sewer usage fees and marriage, hunting, fishing and dog licenses. The Clerk also collects property tax payments. The Clerk is responsible for receiving, recording, depositing intact and timely, disbursing and reporting all money collected. During the period January 1, 2016 through May 31, 2016, the Clerk collected approximately \$1.9 million of property taxes and disbursed \$754,800 to the Town for its share of the property taxes and penalties and interest collected. For the year 2015, the Clerk collected \$2,685 for marriage, hunting, fishing and dog licenses. The expected 2016 sewer usage fees to be collected during the months of June and July total approximately \$73,000.

Scope and Objectives

The objectives of our audit were to evaluate the Town's financial condition and to examine the Clerk's operations. We examined the Town's financial management and budgeting practices for the period January 1, 2012 through May 31, 2016. We also examined the Clerk's financial operations for the period January 1, 2015 through May 31, 2016. Our audit addressed the following related questions:

- Did the Board adopt realistic budgets and take appropriate actions to maintain the Town's financial stability?
- Did the Town Clerk's operations include adequate procedures for collecting, disbursing and accounting for money?

Audit Results

The Board needs to improve its budget development practices. For the years 2013 and 2014, the Board appropriated more general fund balance than was actually available to finance operations. Using fund

balance as a revenue source resulted in a fund balance deficit of \$25,420 in 2014. Although the Board did not appropriate fund balance in the 2015 and 2016 general fund budgets, the Town's projected 2016 fund balance is a deficit of \$35,285. In addition, the Board appropriated substantial fund balance in the highway fund to finance operations. However, due to unanticipated federal disaster emergency aid (federal aid) for storm damage of \$131,159 in 2013 and \$69,329 in 2014, the highway fund's unrestricted fund balance increased by \$126,170 from a deficit of \$35,332 in at the beginning of 2013 to a projected balance of \$90,838 in 2016. The Board must be careful when using fund balance as a revenue source in future budgets to ensure that it is not depleted.

In 2015 the Town increased the sewer rates in its two sewer districts. Even with the increase in rates, Sewer District 2 is in fiscal stress with a projected deficit fund balance of \$7,666 in 2016. The 2017 budget does not provide for any remedy for the deficit fund balance. In addition, although Sewer District 1 has a projected positive fund balance of \$622 in 2016, it still owes the general fund \$7,500 for an unanticipated pump repair. The 2017 budget does not provide funding to reimburse the general fund for the \$7,500 advance. As a result, both Districts face financial uncertainty. Furthermore, the Board has not developed a multiyear financial and capital plan to address the Town's long-term priorities. As a result, the Board's ability to manage Town finances is diminished.

The Clerk did not issue receipts when collecting property taxes, sewer fees and licenses, as necessary, and did not maintain adequate cash receipt records. She also did not deposit property tax money in a timely manner. For example, for the 2015 property tax levy collection, the Clerk deposited 19 of 38 deposits totaling \$838,730 between two and eight days late, or 45 percent of total tax collections. The Clerk did not remit tax collections to the Supervisor on a weekly basis as required. The Clerk also did not perform monthly bank reconciliations and accountabilities comparing the available cash to the known liabilities. Finally, the Board did not audit or provide for an annual audit of the Clerk's records.

Comments of Town Officials

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

Introduction

Background

The Town of Dresden (Town) is located in Washington County and has a population of approximately 330 year-round residents (summer residents increase the population to approximately 3,000). The Town is governed by an elected five-member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four Council members. The Board is responsible for the general oversight of the Town's operations and finances. The Board is also responsible for auditing the records of all Town officers and employees who handle cash.

The Town provides various services to its residents, including highway maintenance, snow removal, sewer service and general governmental support. These services are financed primarily by real property taxes, sewer rents and State aid. Budgeted appropriations were \$1.1 million for both 2015 and 2016.

The Town Clerk (Clerk) collects money for a variety of items and services provided by the Town and New York State, including annual sewer usage fees and marriage, hunting, fishing and dog licenses. The Clerk's also collects property tax payments. The Clerk is responsible for receiving, recording, depositing intact and timely, disbursing and reporting all money collected. During the period January 1, 2016 through May 31, 2016, the Clerk collected approximately \$1.9 million of property taxes and disbursed \$754,800 to the Town for its share of the property taxes and penalties and interest collected. For the year 2015, the Clerk collected \$2,685 for marriage, hunting, fishing and dog licenses. The expected 2016 sewer usage fees to be collected during the months of June and July total approximately \$73,000.

Objectives

The objectives of our audit were to evaluate the Town's financial condition and to examine the Clerk's operations. Our audit addressed the following related questions:

- Did the Board adopt realistic budgets and take appropriate actions to maintain the Town's financial stability?
- Did the Town Clerk's operations include adequate procedures for collecting, disbursing and accounting for money?

Scope and Methodology

We examined the Town's financial records for the period January 1, 2012 through May 31, 2016. We limited our scope for the examination of the Clerk's operations to the period January 1, 2015 through May 31, 2016.

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 B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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 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 Board to make this plan available for public review in the Clerk's office.

Financial Condition

The Board is responsible for making sound financial decisions that are in the best interests of the Town and the residents who fund its operations. This requires the Board to balance the level of services desired and expected by Town residents with the ability and willingness of the residents to pay for such services. A key measure of the Town's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance can be used to help finance the next fiscal year's operations. Additionally, Town officials should ensure that the level of fund balance maintained is reasonable to provide for contingencies that may arise throughout the year.

It is essential that the Town adopt structurally balanced budgets that contain realistic appropriations and the resources available to fund them. The Board should also develop a detailed multiyear plan to allow officials to set long-term priorities for providing services and addressing capital acquisitions and improvements, along with ensuring there is a plan for funding the costs of the services and capital needs. This is important when resources are limited and can also be beneficial to avoid future stress. Saving for future projects, acquisitions and other allowable purposes is an important planning consideration for towns.

The Board should improve its budget development practices and address the deficit fund balance in the general fund. The Board appropriated more fund balance in the general fund than was actually available to finance operations in the years 2013 and 2014.¹ Even though the Board stopped appropriating fund balance in the 2015 and 2016 budgets, past practices of using fund balance to finance annual operations resulted in a deficit general fund balance of \$25,420 at the end of 2014 and the fund's financial condition has not improved in the subsequent years. The general fund deficit is projected to be \$35,285 as of December 31, 2016. The Board also appropriated fund balance in the highway fund to finance operations. However, the highway fund's unrestricted fund balance is projected to increase by \$126,170 from a deficit of \$35,332 at the beginning 2013 to a projected balance of \$90,838 at the end of 2016. This increase was the result of the Town receiving unanticipated federal disaster emergency aid (federal aid) for storm damage of \$131,159 in 2013 and \$69,329 in 2014.

¹ An appropriation of fund balance is the use of unexpended resources from prior years to finance budgeted appropriations.

The Town also has two sewer districts. Despite the Board increasing sewer rates in 2015 for both districts, Sewer District 2 (District 2) will have a projected deficit fund balance of \$7,666 at the end of 2016, while Sewer District 1 (District 1) has a projected positive fund balance of \$622 at the end of 2016. Additionally, the Board has not developed a multiyear financial and capital plan to address the Town's long-term priorities. The lack of this plan diminishes the Board's ability to manage Town finances.

Budgeting and Fund Balance

Local governments must adopt structurally balanced budgets that provide for sufficient recurring revenues to finance recurring expenditures. A local government may choose to appropriate some of its fund balance to offset a planned imbalance between estimated revenues and expenditures. This is an acceptable budgeting practice provided that the local government reasonably estimates that it will have an adequate level of unrestricted fund balance at the fiscal year-end. However, when a local government appropriates too much fund balance or consistently has annual operating deficits, fund balance is gradually depleted, resulting in a deficit. Therefore, there will be no fund balance available to be used for cash flow purposes to fund unforeseen events.

General Fund – The estimates for revenues and expenditures were generally reasonable for the adopted budgets for fiscal years 2013 and 2014.² However, the adopted budgets for these two years included excessive appropriations of fund balance to finance operations. The general fund began the 2013 fiscal year with \$39,949 in fund balance and the Board appropriated \$40,000 to finance operations for the year. By appropriating all the available fund balance, the Board created a budget with no means of funding any unforeseen expenditures for that year. The Board-adopted budget for 2014 appropriated \$35,000 of fund balance to finance operations, but the amount of fund balance available was only \$22,003, resulting in a \$12,997 budgetary deficit. The general fund incurred an actual operating deficit of \$47,423 for 2014, causing the fund balance to decrease to a deficit balance of \$25,420 at year-end.

The Board discontinued the practice of appropriating fund balance to finance operations in 2015 and 2016. Although the estimates for revenues and expenditures were generally reasonable for 2015 and 2016³ and there was a small operating surplus of \$8,425 for 2015, we

² Budgeted appropriations differed from actual expenditures by 10 percent for 2013 and 2 percent for 2014. Estimated revenues compared to actual revenues differed by 4 percent for 2013 and 2 percent for 2014.

³ Budgeted appropriations differed from actual expenditures by 5 percent for 2015 and 3 percent for 2016. Estimated revenues compared to actual revenues differed by 3 percent for both years.

project an operating deficit of \$18,290⁴ for 2016 which will cause the fund balance to decrease to a deficit of \$35,285 at the end of 2016.⁵ (See Figure 1.) As a result of the Board appropriating more fund balance than what was available in years 2013 and 2014 to finance annual operations and not addressing the fiscal decline of the general fund, the fund has a deficit fund balance and is in fiscal stress.

Figure 1: General Fund Balance and Operating Results				
	2013	2014	2015	Projected 2016
Beginning Fund Balance	\$39,949	\$22,003	(\$25,420)	(\$16,995)
Revenues	\$281,801	\$300,873	\$316,333	\$329,180
Expenditures	\$299,747	\$348,296	\$307,908	\$347,470
Operating Surplus/(Deficit)	(\$17,946)	(\$47,423)	\$8,425	(\$18,290)
Ending Fund Balance	\$22,003	(\$25,420)	(\$16,995)	(\$35,285)
Less: Fund Balance Appropriated to Finance Next Year's Operations	\$35,000	\$0	\$0	\$0
Budget Deficit for Ensuing Year	(\$12,997)	N/A	N/A	N/A

The fund's cash balance increased during our audit period from approximately \$450 at the beginning of 2013 to \$11,900 at the end of the 2015 year. However, the general fund had insufficient cash to pay all its obligations during the last quarter of each fiscal year of our audit period and had to borrow cash from the highway fund each year. The general fund borrowed \$50,000 from the highway fund in October 2013 and \$69,329 in October 2014. In October and December of 2015, the general fund again borrowed \$25,000 in each month for a total of \$50,000 from the highway fund. The general fund repaid the highway fund after property taxes were received in each of the following years.

Highway Fund – The highway fund has maintained a positive fund balance in recent years and it is projected to increase by \$126,170, from a deficit of \$35,332 at the beginning of 2013 to \$90,838 at the end of 2016. (See Figure 2.) Similar to the general fund, the Board has consistently appropriated fund balance to help fund highway operations each year. Although the Board appropriated fund balance

⁴ The 2016 adopted budget included an estimated revenue of \$70,000 for the State conservation weed program. As of the end of our audit fieldwork, the Town was in negotiations with the State for the 2015 reimbursement that was expected to range from \$50,000 to \$70,000. We included a conservative estimate of \$50,000 to project 2016 revenues.

⁵ The 2012 Annual Update Document (AUD) that is required to be filed with OSC was not filed until July 2016. The Town has not filed the 2013 through 2015 AUDs with our office. Therefore, we used the Town's accounting records for revenues and expenditures for these years to calculate the results of operations and fund balances. The current Supervisor took office on January 1, 2014 and has been working on bringing the Town's filing of the AUDs up-to-date.

for 2013 and 2014, the fund realized an operating surplus of \$142,223 in 2013 and \$56,619 in 2014. In 2013, the Town received \$131,159 in unanticipated federal aid for storm damage. In 2014, the Town received an additional \$69,329 in federal aid. The estimates for revenues and expenditures for 2015 and projected for 2016 were generally reasonable.⁶

Figure 2: Highway Fund Balance and Operating Results

	2013	2014	2015	Projected 2016
Beginning Fund Balance	(\$35,332)	\$106,891	\$163,510	\$112,478
Revenues	\$623,880	\$574,529	\$697,997	\$577,938
Expenditures	\$481,657	\$517,910	\$749,029	\$599,577
Operating Surplus/(Deficit)	\$142,223	\$56,619	(\$51,032)	(\$21,639)
Ending Fund Balance	\$106,891	\$163,510	\$112,478	\$90,838
Less: Fund Balance Appropriated to Finance Next Year's Operations	\$25,000	\$40,000	\$40,000	\$40,000
Assigned Unappropriated Fund Balance	\$81,891	\$123,510	\$72,478	\$50,838

While the projected amount of fund balance totaling \$90,838 at the end of 2016 is financially healthy, the Board must be careful when appropriating fund balance going forward. The annual decreases in year-end fund balance since 2014 and continued reliance on fund balance as a financing source for operations could lead to fund balance being exhausted. Consequently, the Town's ability to address unforeseen circumstances could be diminished in future years.

Sewer Fund – The sewer fund has two sewer districts. We examined the budgets and results of operations for these two districts for the years 2012 through 2015. In addition, we projected the results of operations for the year 2016. Even though the Board increased sewer rates in 2015 for both districts, District 2 is still in fiscal stress. We project the District's fund balance will decrease \$6,066, or 379 percent, from a deficit of \$1,600 at the beginning of 2013 to a projected deficit of \$7,666 at the end of 2016. (See Figure 3.) The estimates for revenues and expenditures were generally reasonable during the four years we reviewed. However, the expenditures increased from 2013 to 2014 by approximately \$7,500 for the unplanned repairs of aging pumps. During 2013 and 2014, District 2 just had enough cash to pay for its operating costs. The increase in sewer rates for District 2 assisted in covering the operating costs. However, the 2016 budget did not include any remedy for addressing the deficit fund balance or any additional expenditures for unplanned repairs that may be necessary.

⁶ Budgeted appropriations compared to actual expenditures differed by approximately 1 percent for the years 2015 and 2016. Estimated revenues compared to actual revenues for these same years also varied by 1 percent.

Figure 3: Sewer District 2 Fund Balance and Operating Results

	2013	2014	2015	Projected 2016
Beginning Fund Balance	(\$1,600)	(\$1,958)	(\$8,398)	(\$8,426)
Revenues	\$27,666	\$29,650	\$39,548	\$39,692
Expenditures	\$28,024	\$36,090	\$39,576	\$38,932
Operating Surplus/(Deficit)	(\$358)	(\$6,440)	(\$28)	\$760
Unassigned Fund Balance	(\$1,958)	(\$8,398)	(\$8,426)	(\$7,666)

District 1 fund balance is projected to increase \$2,007, or 145 percent, from a deficit of \$1,385 at the beginning of 2013 to a projected balance of \$622 at the end of 2016. (See Figure 4.) Revenues and expenditures decreased substantially from 2014 to 2015 due to outstanding debt being paid in full in 2014, resulting in both a decrease in expenditures for debt and a corresponding decrease in taxes levied to fund debt payments. However, the Board did not budget for pump repair costs and an increase in sewer rates in 2015. The unexpected cost of \$9,024 in 2015 caused District 1 to generate a substantial operating deficit and decreased the District's fund balance to a deficit balance of \$6,152 at the end of 2015. Furthermore, District 1 did not have sufficient cash to pay for the pump repair in 2015 and borrowed \$7,500 from the general fund. As of June 2016, the District had not repaid the general fund.

Figure 4: Sewer District 1 Fund Balance and Operating Results

	2013	2014	2015	Projected 2016
Beginning Fund Balance	(\$1,385)	\$2,314	\$5,030	\$1,348
Prior period adjustment	\$0	\$0	\$0	(\$7,500) ^a
Adjusted Beginning Fund Balance	(\$1,385)	\$2,314	\$5,030	(\$6,152)
Revenues	\$63,499	\$62,531	\$23,336	\$36,884
Expenditures	\$59,800	\$59,815	\$27,018	\$30,110
Operating Surplus/(Deficit)	\$3,699	\$2,716	(\$3,682)	\$6,774
Assigned Unappropriated Fund Balance	\$2,314	\$5,030	\$1,348	\$622

^a The 2015 fund balance has been adjusted for a \$7,500 loan from the general fund received on September 15, 2015. The loan has not been repaid to the general fund as of the end of fieldwork. The Town did record the loan in the accounting records.

On July 28, 2016, prior to adoption of the 2017 budget, we reviewed our findings related to the Town's financial condition and the budgeting for various funds with Town officials. For the 2017 general fund budget, the Board did not appropriate fund balance as a revenue source to finance ongoing operations and included a contingency appropriation of \$13,200 to provide additional funding for any unplanned events. Even though the 2017 adopted budget increased estimated revenue to be collected from property taxes and included a contingency, the Board will need to closely monitor and control 2017 expenditures to address the deficit fund balance projected to carry over from 2016.

Consistent with the prior two years' budgets, the Board appropriated \$40,000 of fund balance as a funding source in the 2017 highway fund budget which will further deplete available fund balance.

The 2017 budget for District 2 did not materially change from the 2016 budget and does not provide for any remedies to correct the ongoing deficit fund balance or fund any additional appropriations for unplanned repairs that may be necessary. The District 1 budget provided for increases in revenues of \$5,800, or 17 percent, based on planned increases to sewer rents, which should allow the district to sufficiently fund operations. However, the budget does not provide additional funding to repay the outstanding \$7,500 advance from the general fund.

Multiyear Financial and Capital Planning

An important Board responsibility is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important for the Board to develop a comprehensive multiyear financial and capital plan to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and allow the Board to identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. Multiyear plans also allow the Board to assess the effects and merits of alternative approaches to address financial issues, such as the use of unrestricted fund balance to finance operations and the accumulation of money in reserve funds. The Board should monitor and update long-term financial plans on an ongoing basis to help ensure that its decisions are guided by the most accurate information available.

The Board has not developed a multiyear financial and capital plan and does not have any other mechanism to adequately address the Town's long-term operational and capital needs. Without a multiyear financial and capital plan, the Board's ability to effectively manage Town finances and adequately plan for future capital needs is diminished.

Recommendations

The Board should:

1. Adopt a formal fund balance and reserve policy to establish planned amounts of fund balance to keep on hand to provide for cash flow and a cushion against unforeseen circumstances.
2. Review estimates of fund balance at year-end as part of the Town's budget process. The Board should not budget to appropriate fund balance to finance annual operations in excess of the planned fund balance levels.

3. Closely monitor 2017 expenditures to make sure they are kept within budgeted amounts.
4. Develop a comprehensive multiyear financial and capital plan that projects operating and capital needs and financing sources over a three- to five-year period. The Board should monitor and update this plan on an ongoing basis.

Town Clerk Operations

The Clerk is responsible for maintaining complete and accurate accounting records and promptly depositing money received into the Clerk's bank account. The Clerk collects cash for a variety of items and services provided by the Town and State, including marriage, hunting, fishing and dog licenses. The Clerk is also the Tax Collector, responsible for collecting and receiving property tax payments, issuing receipts and recording and depositing tax collections in a timely manner. Duplicate receipts should be issued where no other form of documentation is available to evidence collections. Performing a monthly bank reconciliation and accountability analysis provides the Clerk with an opportunity to verify the accuracy of her financial records in a timely manner. Finally, the Board is required to audit the books and records of the Clerk on an annual basis.

The Clerk did not issue receipts for property tax, sewer fee and license collections when necessary and did not maintain adequate records. In addition, she did not make property tax deposits in a timely manner. For the 2015 property tax collection, 19 of 38 deposits made by the Clerk were not timely.⁷ The 19 deposits totaled \$838,730, or 45 percent of total tax collections. The 2016 tax collections were also not deposited timely.⁸ Eighteen of 44 deposits totaling \$359,719, or approximately 19 percent of total tax collections, were not deposited timely in 2016. The Clerk did not remit tax collections to the Supervisor in a timely manner. She also did not perform monthly bank reconciliations and accountabilities comparing the available cash to the known liabilities. Finally, the Board did not provide adequate oversight of the Clerk's financial activities by conducting an annual audit of the Clerk's records.

Property Tax and Sewer Fee Collections

The Clerk, serving as the Tax Collector, is accountable for all property tax collections. She is also responsible for collecting sewer usage fees and remitting those fees to the Supervisor. The Clerk must also maintain an accurate and timely recording of tax and sewer fees in the accounting records, secure all money received and deposit collections timely and intact (in the same amount and form as collections). Furthermore, it is important to prepare a monthly accountability analysis which shows available cash and whom it is owed to and to reconcile the bank accounts.

New York State Town Law (Town Law) and New York State Real Property Tax Law set forth the legal requirements that must followed to record, deposit and remit property taxes. This includes depositing

⁷ Deposits were made between two to eight days after collections were made.

⁸ Deposits were again made between two to eight days after collections were made.

tax collections within 24 hours of receipt, remitting funds to the Supervisor weekly until the Town's portion of the tax levy is satisfied and then remitting any additional tax receipts to the County Treasurer by the 15th day of each month following their receipt. At the end of the collection period, the Clerk is required to settle with the County Treasurer and must account for the taxes collected, amounts remitted to the Supervisor and County Treasurer, any adjustments to the tax roll and the taxes that remain unpaid. Also, all interest and penalties collected for delinquent real property taxes must be turned over to the Supervisor. In addition, there should be no further account activity and the tax collection bank account balance should be zero (unless a nominal amount is needed to keep the account open).

The Board is responsible for establishing rates for all sewer charges for districts within the Town and approving all billings to ensure users are billed accordingly. Similar to other Clerk fees, the Clerk is required to deposit all money collected no later than the third business day after the total exceeds \$250, and intact (in the same amount and form as received). In addition, Town officials should ensure that penalties are assessed to delinquent accounts in accordance with Board policy and that all water and sewer charges that are collected on their behalf are remitted to the Town for deposit.

Property Taxes – The Clerk manually records property tax payments on the tax roll. The information recorded includes the date a payment is received, amount paid and if the payment was by check or cash. Tax collections are also recorded in the county-wide computerized software. However, the date of data input is used as the date of collection in the software, not the actual date the tax payment was received. Duplicate receipts or other documentation such as a copy of individual tax bills indicating when each payment was received, how much the payment was for or if payment was paid by cash or check are not maintained. Therefore, we were able to determine if collections were deposited timely but we could not determine if they were deposited intact. In addition, tax collections to the Supervisor were not remitted in a timely manner.

Using the Clerk's handwritten notation on the tax roll that indicated the date received, amount paid and if paid by check or cash, we calculated the total taxes received by date. We reviewed all tax collections for the years 2015 and 2016 to determine if tax payments were deposited within one business day as required by law. Taxes collected totaled \$1.9 million in 2015 and \$1.9 million in 2016. For the 2015 property tax collection period, the Clerk did not make timely deposits for 19 of 38 deposits. The untimely deposits totaled \$838,730, or 44 percent of total tax collections. In 2016 the Clerk did not make timely deposits for 18 out of 44 deposits. The untimely deposits totaled \$359,719, or 19 percent of total tax collections.

Tax collections were not remitted to the Supervisor on a weekly basis as required. Instead, one remittance of \$710,660 was made on February 10, 2015 for the entire 2015 tax levy. However, approximately \$1.1 million was collected in the month of January 2015. In 2016 two remittances totaling \$184,470 were made in the middle of January despite \$277,634 in taxes having been collected. Another remittance was made at the beginning of February for \$566,827 to pay the remaining 2016 balance due to the Supervisor. The Clerk told us she was not aware that she was required to remit tax collections to the Supervisor on a weekly basis.

Sewer User Fees – Similar to property tax collections, the Clerk did not maintain duplicate receipts or other documentation of payments made such as a copy of sewer bills indicating when each payment was received, how much the payment was for or if payment was paid by cash or check. In addition, the sewer fees were deposited in the same bank account used for property taxes. This bank account was not reconciled to the accounting records. The Clerk kept track of the sewer customer payments on the master billing list that was provided by the Supervisor. However, the date of receipt of payment was written on the master billing list. Therefore, we were able to determine if receipts were deposited timely but we could not determine if they were deposited intact.

Clerk Fees

The Clerk is responsible for collecting payments for dog, hunting, fishing and marriage licenses. The Clerk is required to issue duplicate receipts to payees, recording the form of payment (i.e., cash or check) for every transaction if no other evidence of receipt is available. She is also required to deposit all money collected no later than the third business day after the total exceeds \$250, and intact (in the same amount and form as received). Monthly accountabilities should also be prepared that compare cash on hand and on deposit to detailed lists of liabilities and reconcile funds collected with the entities to which they are due. The Clerk is also responsible for preparing monthly reports detailing her financial activities and providing them to the Supervisor.

The Clerk's monthly reports did not provide adequate accountability of her financial activity because they did not include a reconciliation of liabilities with cash assets on hand and in the bank. Bank reconciliations and monthly accountabilities were not prepared. When the Clerk receives funds, she records the amount on the monthly report. However, she does not maintain any accounting records (receipt ledgers) or other documentation to support the monthly reports. Without adequate records, reconciliations and accountabilities, the Clerk cannot adequately support all collections that are accounted for on the report.

We selected the monthly reports for the period January 1, 2015 through May 31, 2016 to determine if collections recorded on the monthly reports to the Supervisor were deposited intact and timely. We compared the total receipts reported to the total bank deposits for the period. During this time period, the fees collected per the reports were \$3,009 but deposits totaled \$3,126. Due to the lack of receipt ledgers or other records, we were unable to determine if these receipts were deposited intact and timely. The Clerk was also unable to explain the \$117 difference between the fees collected and deposited because she did not have records or supporting documentation to explain the difference.

Without proper supporting documents and accounting records to identify the amounts received, composition (cash vs. checks) and dates received, the risk is increased that money collected by the Clerk could be used for unauthorized purposes and not be detected.

Annual Audit

Town Law requires the Board to complete an annual audit of the Clerk's records. An annual Board audit provides independent verification that the records are maintained in accordance with established procedures, transactions are properly recorded and cash is properly accounted for. This is a particularly important function when the Clerk's office is basically a one-person operation where the Clerk receives cash payments, records the cash collections in the accounting records, disburses money and reconciles her own accounts. Without a proper segregation of these duties among different individuals, it is essential for the Board to provide adequate oversight of the Clerk's activity as a compensating control.

The Board did not complete an annual audit of the Clerk's records. Even a cursory audit by the Board would have detected that the Clerk did not maintain adequate accounting records, prepare monthly accountabilities or reconcile bank statements. Furthermore, the Board audit should also have detected that the tax collection bank account still had a balance several months after all money should have been paid out.⁹

Recommendations

The Clerk should:

5. Remit tax moneys and the interest and penalties collected on the tax collections to the Supervisor in a timely manner.
6. Ensure that receipts are recorded in an accurate and timely manner and maintain adequate accounting records which

⁹ The balance remaining in the account after all property taxes were collected and paid to the Supervisor and County was \$3,111 as of April 30, 2015. This amount pertains to penalties collected but not remitted to the Supervisor until September 15, 2016.

include receipt ledgers, manual receipts when no other form of support is available, and prepare monthly accountability analyses and timely reconciliations of bank accounts.

7. Deposit all money in the bank in a timely manner.
8. Attend training sessions to fully understand the responsibilities of the Clerk's Office.

The Board should:

9. Conduct a thorough annual audit of the Clerk's records.
10. Ensure that the Clerk remits property tax moneys to the Town at least weekly until the tax levy is satisfied and then remit any additional tax receipts to the County Treasurer by the 15th day of each month following their receipt.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TOWN of DRESDEN, N.Y.
Washington County



From: George D. Gang, Dresden Town Supervisor February 02, 2017
To: The Office of the State Comptroller, Division of Local
Government Accounting.
Subj: Response to Audit Report for the Town of Dresden #2016M-369.

The Town of Dresden fully agrees with all of the findings in your Report of Examination #2016M-369. Although this is not our Corrective Action Plan it should be noted that the Town of Dresden has already begun to take the following Corrective Actions while others are under discussion.

- 1) In the past three years the Town of Dresden has mainly focused on improving our cash flow by increasing Town taxes and lowering expenses, where possible. The result was the first time in three years that the Town did not have to borrow monies for either the General Fund or the Sewer Funds, we had a positive cash balance in all funds at the beginning of 2017.
- 2) The Town Board has already begun discussions on setting up Reserve funds for both Building and Equipment.
- 3) The Town has continually monitored expenditures with reports and discussions on our fiscal health.
- 4) The Town has reestablished a schedule to audit the Town Clerk, Town Justice and the Town Budget officer to assure compliance to State standards and good financial practices.
- 5) The Town Clerk Has remitted all funds to the Supervisor in a timely manner and has been maintaining adequate accounting records of all transactions including timely deposits and reconciliation of all bank accounts.

Thank You,

George D. Gang
Dresden Town Supervisor
P.O. Box 16
Clemons, NY 12819
(518) 499-1100
townofdresden@hotmail.com

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

Financial Condition:

- We interviewed Town officials and reviewed Board minutes to gain an understanding of the Town's budget process.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund, highway fund and both sewer funds for the period January 1, 2012 through December 31, 2016 (projected).
- We compared the adopted budgets to actual operating results to determine if the budget assumptions were reasonable.
- We reviewed revenues and expenditures to identify significant variances and analyze trends. We projected the 2016 operating results and resulting fund balances for the general fund, highway fund and sewer funds.
- We tested the reliability of the accounting records by reviewing bank statements and canceled checks and compared them to Town's financial records.

Town Clerk Operations:

- We interviewed the Supervisor and Clerk to gain an understanding of the Clerk's receipt collection and disbursement procedures.
- We obtained the Clerk's records (bank statements, monthly reports, tax rolls with dates and amounts of collections noted in margin and sewer master billing lists with dates paid noted) to determine the time from collection to deposit (excluding weekends and holidays). We also used these records to compare the expected amounts of collections to the actual bank deposits evidenced in the bank statements.
- We reviewed the amounts and frequency of the payments of property tax receipts to the Supervisor and the County.

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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