



# Town of Taylor Financial Management

## Report of Examination

Period Covered:

January 1, 2015 — September 8, 2016

2016M-391



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

March 2017

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 Taylor, entitled Financial Management. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Town of Taylor (Town) is located in Cortland County and has a population of approximately 525 residents. The Town provides various services for its residents, including general government support, street maintenance and repair and snow removal. The Town's 2015 budget of \$201,000 was funded primarily with real property taxes, State aid and sales tax.

The Town is governed by an elected Town Board (Board) composed of the Town Supervisor (Supervisor) and four Board members.<sup>1</sup> The Board is responsible for the general oversight of the Town's financial affairs. The Supervisor, as chief fiscal officer, is responsible for establishing adequate controls to safeguard resources and receiving, disbursing and maintaining custody of Town money. The Supervisor hired a bookkeeper to perform the day-to-day financial duties.

## Objective

The objective of our audit was to assess the Board's oversight and financial management of the Town's operations. Our audit addressed the following related question:

- Did the Board provide adequate oversight of Town finances?

## Scope and Methodology

We examined the Town's financial records and reports for the period January 1, 2015 through September 8, 2016. We extended our scope back to January 1, 2013 for trending purposes and forward to December 31, 2016 to project results of operations.

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

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<sup>1</sup> During our audit fieldwork there were only four Board members, as the Supervisor resigned effective July 31, 2016. The Deputy Supervisor was the acting Supervisor from August 1, 2016 through December 31, 2016. A newly elected Supervisor took office January 1, 2017.

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

## Financial Management

The Board and Supervisor are responsible for the Town's financial management and oversight. This includes ensuring that there is a plan for the use of fund balance, all cash disbursements are for proper Town expenditures and the Supervisor's records and reports are annually audited.

The Board did not provide adequate oversight of Town finances. The Town has accumulated excessive fund balance and the Board does not have a formal plan for its use. Furthermore, the Supervisor has delegated many of the fiscal duties to the bookkeeper without providing sufficient oversight or mitigating controls.

### Fund Balance

The Board should adopt a policy to establish the level of fund balance to be maintained in each fund and create long-term plans that set forth the Town's financial objectives and goals.

The general fund's total fund balance has grown over the three completed fiscal years from \$293,474 in 2013 to \$525,265 in 2015, or approximately 351 percent of the 2016 budgeted appropriations. Additionally, the highway fund's total fund balance has remained relatively unchanged for the past three years with an ending balance of \$171,950 in 2015, or approximately 57 percent of the subsequent year's budgeted appropriations.

This occurred because of continued operating surpluses from conservative budgeting practices over the last three completed fiscal years and because there was no established plan for the use of the excessive fund balance. For example, the Town's combined overestimated expenditures for the general and highway funds totaled \$310,000, or 23 percent, over this time period. Appropriations for health insurance were overbudgeted by 71 percent, or \$69,000, over the same period. Town officials budgeted for health insurance for its two full-time employees even though they knew these employees were receiving Medicare benefits and, therefore, did not need to use the Town's insurance. Additionally, we project the Town will have an operating surplus of \$225,000 for 2016.

The Board has not historically monitored available fund balance or established formal plans to address the excessive fund balance levels or used reserves to segregate money for a particular purpose. The bookkeeper has repeatedly advised the Board to address the excessive fund balance levels. However, it has not acted to improve budgeting practices or reduce fund balance. Because the Town has continuously

maintained excessive fund balance levels, funds that could have been used to benefit the residents by lowering taxes or funding capital improvements were not used. As a result, an unnecessary burden may have been placed on the Town residents.

## **Oversight**

The Supervisor is responsible for ensuring that monthly bank statement balances are reconciled with the cash balances recorded in the Town's records to help verify that all cash receipt and disbursement transactions are captured and properly recorded. If the Supervisor assigns recordkeeping duties to a bookkeeper, sufficient oversight must be provided to ensure the bookkeeper's records are reliable and up-to-date and cash disbursements are for proper Town expenditures. Finally, the Board is required to annually audit, or have an independent public accountant audit, the Supervisor's records and reports.

The former Supervisor delegated a majority of his recordkeeping duties to the bookkeeper due to her expertise. The acting Supervisor continued this practice because of the Town's long-term relationship with the bookkeeper. Although the Board audits claims for payment and the former and acting Supervisor signed the checks, the bookkeeper maintains custody of the bank statements, prepares the checks and abstracts, records all transactions and performs the bank reconciliations without any additional oversight. Neither of the Supervisors nor the Board were aware of the risks of not providing adequate oversight of the bookkeeper's work. Furthermore, the Board did not know it was required to annually audit the Supervisor's records.

As a result of these deficiencies, we scanned all bank statements for the audit period to ensure there were no improper withdrawals or transfers. We examined all disbursements totaling \$5,412 paid to the bookkeeper and \$5,354 paid to the former Supervisor and found they were supported and for proper Town purposes. We also reviewed three months of disbursements totaling \$95,862 and found all were approved by the Board and for proper Town purposes. Although we found no irregularities, without adequate oversight, errors and irregularities could occur and go undetected and uncorrected.

## **Recommendations**

The Board should:

1. Develop a plan to reduce the amount of available fund balance in a manner that benefits Town residents. Such uses could include, but are not limited to:
  - Funding one-time expenditures;

- Funding needed reserves; or
  - Reducing property taxes.
2. Annually audit, or have an independent accountant audit, the Supervisor's records.

The Supervisor should:

3. Periodically review the bookkeeper's work to ensure that all financial activity is recorded accurately and completely accounted for, monthly bank reconciliations are performed and any discrepancies are promptly investigated and corrected.



## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

**Town of Taylor**  
3288 State Route 26  
Cincinnati, NY 13040  
(607) 863-3008

February 14, 2017

**Office of the State Comptroller**  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, NY 13902

Dear [REDACTED]

This letter is in response to the recent audit conducted for the Town of Taylor. We have reviewed and discussed the draft prepared and are in agreement with the findings. We have already started to implement some of the recommendations prior to receiving the draft, and will work to implement the rest as part of our 2017 processes. We appreciated the time and effort that the auditors spent while working with us and suggestions made to implement this as smoothly as possible. As part of our corrective action plan, the supervisor has started to review all bank reconciliations prepared by the town's bookkeeper, and will present the books to be audited by the board in the next two months. Additionally, we will have the town clerk and the town justice present their books for audit by the board in the upcoming months, and will continue to do so annually.

Additionally, part of our correction action plan in regards to the unreserved undesignated fund balance was to purchase a new plow truck for the town, which was delivered and paid for in October 2016. We will continue to work on reviewing our current reserves and designate additional reserves based upon a thorough review of our equipment and building needs as part of our multi-year planning process. We anticipate having our reserves established and funded by mid-summer 2017.

Again, we wish to thank the audit staff for their assistance throughout this entire process. It was an enjoyable learning experience and all involved were able to gain a greater understanding of town finances and procedures.

Sincerely,

Bryce E. Wehner  
Taylor Town Supervisor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials and reviewed Board minutes, financial reports and Town policies to gain an understanding of Town operations.
- We performed an analysis of fund balance for 2013 through 2015 and compared balances to the subsequent year's appropriations.
- We determined the results of operation for both the general fund and highway fund for 2013 through 2015. We also projected the results of operation as of August 31, 2016 through December 31, 2016 to determine the operating surplus and amount of growth in fund balance.
- We reviewed the Town's budget-to-actual results for 2013 through 2015 to identify significant variances and budgeting trends.
- We reviewed bank statements and check images from January 2015 through August 2016 to verify there were no improper withdrawals or checks made out to cash.
- We examined all disbursements to the bookkeeper totaling \$5,412 and the former Town Supervisor totaling \$5,354 to ensure they were for proper Town purposes and for the approved amounts.
- We reviewed three months of bank statements. We traced 72 checks and 12 electronic fund transfers totaling \$95,862 to the abstracts, vouchers and supporting invoices to ensure they were for proper 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 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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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Tracey Hitchen Boyd, Assistant Comptroller

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