



Town of Sheridan

Shared Services Costs

2023M-74 | December 2023

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Report Highlights

Town of Sheridan

Audit Objective

Determine whether the Town of Sheridan (Town) was reimbursed equitably for shared service costs incurred pursuant to an intermunicipal agreement (IMA) and whether the Town Board (Board) conveyed land in a transparent and equitable manner.

Key Findings

The Town was not reimbursed equitably for shared service costs related to the IMA and the operating group Chadwick Bay Intermunicipal Water Works (CBI). Because the Board did not monitor the IMA's operations and labor costs, Town taxpayers paid \$125,736 to provide services to customers in three other towns and a village benefitting from the IMA. Officials also did not collect about \$21,000 from CBI for Town office space the group uses.

In addition, the Board did not convey land to Chautauqua County (County) in a transparent and equitable manner. The Board and former Supervisor donated 6.2 acres of Town land to the County without conducting a cost-benefit analysis or evaluating whether the conveyance was in the Town taxpayers' best financial interest. Although the County installed a water storage tank on the land and installed water lines, there is no existing water district or documented plans to establish a water district near these improvements; therefore, there currently is no benefit to Town taxpayers.

Key Recommendations

- Develop procedures for tracking and billing CBI for the reimbursement of CBI expenditures.
- Develop a written rental agreement for the use of office space and collect unpaid rent.
- Take appropriate measures when conveying real property to help ensure the conveyance is in the best interest of Town taxpayers.

Town officials generally agreed with our recommendations and have initiated corrective action.

Background

The Town is located in the County and is governed by an elected five-member Board consisting of the Supervisor and four Councilmembers. The Board is responsible for general management and the Supervisor, as chief fiscal officer, is responsible for the Town's day-to-day management, including maintaining accounting records.

The Town is one of five municipalities that are in the North Chautauqua County Water District (NCCWD). In January 2019, the municipalities entered into an IMA to create an operating group referred to as CBI to serve the member municipalities by managing and maintaining water operations. In February 2021, the Town was designated to implement functions of the agreement and was to be reimbursed by CBI for all joint operations. The former Supervisor was a board member for NCCWD and CBI, and was compensated as the supervisor of CBI. For purposes of this report, we are not rendering an opinion as to the legal sufficiency of the creation of NCCWD or the establishment and powers of CBI.

Quick Facts

Parcels	2,319
Parcels within NCCWD	229 (10 percent)
2021 Budget	\$1.5 million
2022 Budget	\$2 million

Audit Period

January 1, 2021 – December 13, 2022

Shared Services Costs

How Should Officials Monitor Costs Associated With an Intermunicipal Agreement?

Town officials are responsible for monitoring costs associated with intermunicipal agreements (IMAs) and safeguarding resources. IMAs may provide municipalities with a cost-effective way to provide services by sharing costs. To help maintain equity amongst taxpayers, members of an IMA should ensure that services, and the cost of those services, are applied to the group of taxpayers benefiting from those services. Town services are often provided to all taxpayers within the town; therefore, all town taxpayers bear a proportionate share of the cost of those services, usually through general fund real property taxes. However, some services, such as water or sewer services, are provided to certain properties within a special district for those specific services; the cost of those services are then billed to the properties within those districts.

According to the IMA, designated municipalities of the IMA shall be reimbursed for all joint operation costs incurred in rendering such services, including payroll and fringe benefit costs for personnel contracted for operations group activities. The IMA also stipulates that municipalities, such as the Town of Sheridan, would be reimbursed for vehicle and equipment utilized on CBI projects. A board is also responsible for providing proper oversight and effective management of town operations, including establishing and enforcing policies and procedures, ensuring detailed financial reports are regularly generated and reviewed, and establishing and adhering to agreements, including rental agreements. A board is also responsible for auditing claims prior to payment. The audit of claims should be a deliberate and thorough process allowing the board to determine whether proposed payments were supported and were for a legitimate town purpose.

The Town Was Not Reimbursed Equitably for Shared Service Costs

The Town paid a total of \$474,134 for payroll and other expenditures related to CBI. Although the Town received reimbursements totaling \$348,398 from CBI for certain payroll expenditures, the Board did not request, and the Town did not receive, reimbursement for other expenditures affiliated with the IMA totaling \$125,736 (payroll expenditures totaling \$46,738 and operational costs totaling \$78,998 (Figure 1)).

Figure 1: CBI Expenditures Paid by and Owed to the Town

CBI Payroll	\$395,136
<u>CBI Operational Costs</u>	<u>78,998</u>
Total CBI Expenditures	\$474,134
<u>Less: CBI Reimbursements</u>	<u>(348,398)</u>
Total Unreimbursed CBI Expenditures	\$125,736

The former Supervisor and all four Councilmembers acknowledged that the Town was to be reimbursed for all expenditures paid for by the Town on behalf of CBI in accordance with the IMA. However, the former Supervisor did not maintain a clear record of CBI expenditures and did not seek reimbursement for all such expenditures.

Payroll – During our audit scope period, the Town was not reimbursed \$46,738 for wages, salaries and other payroll-related costs for 10 employees that exclusively carried out tasks for CBI and the former Town Supervisor who was compensated as the supervisor of these employees. Although all four Councilmembers and the former Supervisor told us they were aware that these employees were being paid by the Town and they believed the Town was being reimbursed for personnel expenditures related to CBI, all four Councilmembers told us that they did not know who billed CBI, or whether the Town received reimbursement for all expenditures affiliated with CBI. The Councilmembers also did not request financial reports documenting the funds expended and the reimbursement of those funds. As of July 2022, the Town was not reimbursed for CBI payroll-related expenditures totaling \$46,738. The reimbursements the Town received were initiated by the Town’s bookkeeping firm each pay period. The bookkeeping firm submitted an invoice documenting the wages paid for those carrying out tasks related to CBI. However, neither Town officials nor the bookkeeping firm submitted for reimbursement for the Town’s portion of payroll taxes and retirement costs.

Because the Board did not establish written policies or procedures for billing CBI or monitor expenditures and reimbursements, the Town was not reimbursed for shared payroll costs. As a result, the Town’s taxpayers paid a disproportionate share of CBI’s payroll costs compared to other participating municipalities. Had the Board established a reimbursement process and reviewed financial reports, the Board may have been aware of the taxpayer inequity that was occurring.

Disbursements – The Town was not reimbursed for 55 payments totaling \$78,998 for purchases made on behalf of CBI, including:

- Two payments, totaling \$33,196, to purchase three vehicles for CBI’s sole use – \$10,000 for two vehicles in February 2021 and \$23,196 for one vehicle in June 2022. The former Supervisor did not provide these invoices to the Town Clerk (Clerk) or present these payments to the Board for audit and approval.
- 13 payments totaling \$30,041 for employee health insurance premiums in the Town’s name that were solely for employees that worked exclusively on CBI operations.
- 15 payments totaling \$12,028 for postage and supplies that the Clerk charged to the Town’s credit card on behalf of CBI. Additionally, 13 of the purchases totaling \$10,609 were not presented to the Board for audit and approval.

The Town was not reimbursed for 55 payments totaling \$78,998 for purchases made on behalf of CBI. ...

-
- 10 payments totaling \$2,216 for a vehicle tracking system used on the vehicles purchased for CBI use; the former Supervisor made this recurring purchase on his Town credit card. Additionally, nine of the purchases totaling \$2,018 were not presented to the Board for audit and approval.
 - 15 payments totaling \$1,517 for utilities, including phone line installation and additional equipment related to Internet service for CBI. Additionally, five of the purchases totaling \$606 were not presented to the Board for audit and approval.

The former Supervisor told us that it was the Clerk's responsibility to bill CBI for the reimbursement of CBI expenditures. However, the Clerk stated she was never advised that she was responsible for identifying expenditures related to CBI and billing CBI for those items. Two Councilmembers stated that the Supervisor should have been billing for reimbursement and two Councilmembers did not know who was responsible for the billing. In addition, all four Councilmembers told us that they did not request financial reports documenting the funds expended and the reimbursement of those funds.

The Board did not develop and adopt written policies or procedures to provide guidance for tracking expenditures made on behalf of CBI, requesting or collecting reimbursement from CBI, or reporting such activity to the Board. All four Councilmembers told us that they believed that the Town was billing CBI and was reimbursed for CBI expenditures. However, the Board did not thoroughly review financial reports or request additional information to determine how much the Town has expended on behalf of CBI and whether reimbursements were received.

Additionally, the Board did not conduct a proper audit of CBI-related expenditures. When claims were submitted for audit, they did not always contain sufficient supporting documentation, and the Board did not request additional documentation. Furthermore, claims were not always submitted for audit before or after payments were made; therefore, the Board did not approve these expenditures and may not have been aware that the purchases were made.

Had the Board conducted a proper claims audit, requested and reviewed detailed financial reports, developed and adopted written policies or procedures or discussed the Town's financial situation with its bookkeeping firm, it may have been aware that the Town expended a substantial amount of money for activities that did not benefit all Town taxpayers. Because the Board did not secure reimbursement for expenditures made on behalf of CBI, Town taxpayers are paying a disproportionate cost of certain CBI expenditures, which is an inequitable use of Town funds. These issues were addressed in a companion report titled *Town of Sheridan Disbursements* (2023M-101).

...[T]he Board did not thoroughly review financial reports or request additional information to determine how much the Town has expended on behalf of CBI and whether reimbursements were received.

The Board Did Not Collect Rent Owed to the Town

In February 2021, Town office space was designated and began being used for CBI operations. All four Councilmembers told us that the Town entered into a rental agreement with CBI that should have been documented in the Board meeting minutes, but were unaware whether there was an actual written agreement. Two Councilmembers and the former Supervisor told us the agreed upon rental fee was \$1,000 a month, and the other two Councilmembers could not recall the agreed upon rental rate. The Board minutes included an approved resolution in July 2021 stating that CBI would be renting space from the Town at “a negotiated rate” even though CBI had been leasing Town office space since February 2021. However, the rental rate was not documented in the Board minutes and none of the Councilmembers could provide a written agreement.

All four Councilmembers stated that they did not know whether the Town had received rent payments from CBI but believed the Town was being paid. The former Supervisor told us that he thought some rent payments had been made. However, as of October 31, 2022, the Town had not received any rent payments from CBI. Based on an estimated rent of \$1,000 a month from February 2021 through October 2022, the Town could potentially be owed a total of \$21,000 in unpaid rent.

While the former Supervisor told us that it was the Clerk’s duty to bill CBI for rent, the Clerk stated she was never advised of this duty. Two Councilmembers stated that the Supervisor should have been handling billing CBI for rent, and two Councilmembers did not know who was responsible for the billing. Although the Board received monthly Town financial reports, the reports did not include budgeted revenues for rental of real property, CBI expenditures or any amounts collected or disbursed each month. Therefore, the Board and Town officials did not have enough information to fulfill the Town’s duty as the designated governing municipality pursuant to the IMA and did not recoup money owed to the Town for CBI expenditures.

The Board did not provide adequate oversight and did not monitor the Town’s financial operations by leasing office space to CBI without a written lease agreement and by not collecting rent.

What Makes a Conveyance of Real Property Transparent and Equitable?

Towns are authorized by New York State General Municipal Law (GML) Section 72-h to transfer unneeded real property without consideration to, among other entities, counties. A board that conveys real property under GML Section 72-h should generally review all available options to determine whether the conveyance is in the town’s and its taxpayers’ best interest. For example, a board

[A]s of October 31, 2022, the Town had not received any rent payments from CBI. Based on an estimated rent of \$1,000 a month, ... the Town could potentially be owed a total of \$21,000 in unpaid rent.

should take appropriate measures, which may include obtaining one or more appraisals to determine the value of the land to be given away or sold and using a real estate broker to identify potential buyers. To promote transparency, the board should consider presenting the results of its analysis to its taxpayers.

Town Officials Did Not Seek Fair Market Value Before Conveying Land

The Board did not seek alternative proposals or conduct a cost-benefit analysis prior to conveying 6.2 acres of Town land to the County in 2021. Although the conveyance was approved by the Board and documented in the minutes, the resolution did not include key details of the transaction such as the number of acres being conveyed, the estimated value or the reason for conveying the land.

On June 9, 2021, the Board approved a resolution “to sign over the property at the Town farm to the County to put up the Water Tank.” Board minutes did not indicate that any discussions took place prior to approving the land transfer resolution. All four Councilmembers told us that the former Supervisor presented the idea of donating a portion of the Town farm to the County at the June 9, 2021 Board meeting. While two Councilmembers stated the discussion happened at one meeting, two other Councilmembers stated that there were many discussions prior to June 2021 that were generally held at “Board workshops,” in which meeting minutes were not maintained. All four Councilmembers told us that they were not party to discussions with County officials regarding the land donation or the proposed use of the land, and that the information provided to the Councilmembers came solely from the former Supervisor.

We determined that land sales in the Town averaged \$4,809 per acre.¹ For perspective, while the Town (i.e., the Board) had no legal obligation to do so, had the Board elected to sell the land rather than donate it by conveying it to the County without consideration, the Town could have potentially received nearly \$30,000 and the Board could have used the sale proceeds in a manner to benefit all Town taxpayers. All four Councilmembers told us that the donation was in the Town’s best interest because the County was planning to put in water lines and a water storage tank, with a value over \$3 million. However, officials could not explain how this would benefit Town taxpayers and residents or demonstrate how donating the land was more beneficial to Town taxpayers than selling it at fair market value. At the time of the conveyance and at the end of our audit fieldwork, there was no existing water district or documented plans to establish a water district near the water lines and water storage tank to be installed by the County. Furthermore, if taxpayers agreed to establish a water district, the land donation would only benefit that specific district. As such, the taxpayers outside of the potential water district would not benefit from the donation, resulting in inequity to a large portion of the Town.

¹ See Appendix B for detailed methodology.

While legally permissible, we question the Board's decision to convey real property to the County without receiving quotes for the fair market value, conducting a cost-benefit analysis and demonstrating to its taxpayers that the conveyance was fiscally prudent.

What Do We Recommend?

The Board should:

1. Seek reimbursement for all unreimbursed expenditures and payment of unpaid rent as provided for in the IMA.
2. Request and review detailed financial reports that document funds received and disbursed on behalf of CBI.
3. Perform a deliberate and thorough audit of all claims and supporting documentation before approving them for payment and disallow claims that do not have sufficient documentation.
4. Develop and formally adopt written policies and procedures for tracking and billing for the reimbursement of CBI payroll and operational expenditures, including who should be performing these duties, and monitor to ensure compliance.
5. Develop and formally adopt a written rental agreement specifying what space is being rented, the monthly rate, what is and is not included in the monthly rate, who should be handling billing, when rent is due and the term of the agreement.
6. Take appropriate measures when conveying real property, including seeking alternative proposals and/or conducting a cost-benefit analysis, to help ensure the conveyance is in the best interest of Town taxpayers.

Appendix A: Response From Town Officials

The following response pertains to this report and a companion report titled *Town of Sheridan Disbursements (2023M-101)*.



TOWN OF SHERIDAN

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Office of the New York State Comptroller
Division of Local Government and School Accountability

We are in receipt of your draft audit report of The State Comptroller's Office Audit of the Town of Sheridan for the period of January 1, 2021 through December 13, 2022. Please note this is a first preliminary response. Town will have more to add as recommendations are implemented.

1. Shared Services – CBI

The Town has and will continue to pursue proper adjustments with the other participating municipalities for rent and employment items.

- Please note the Town no longer is acting as Treasurer for CBI. Duties have been passed on to another municipality.

2. County Land Transfer

Although apparently not reflected in meeting minutes, the Town Board considered the matter carefully and over a period of months. Considerations which weighed in favor of the transfer, found by the board were as follows;

- Only 6.2 acres of 100 acres parcel involved. The land was not in use by the Town, with no plans to do so.
- With the water tank comes water lines to Route 20, which will be useful for fire protection and potential economic development uses requiring water. A water district formation is already being discussed.
- The Town Board thought it important to cooperate with the County and its North County Water District. Town is committed to inter-municipal cooperations and sharing of services in the public interest. The Town Board determined that the transfer was in the long-term best interest.

3. Town Clerk is no longer acting as Bookkeeper. Town has engaged accounting firm to assist Supervisor.

The Town of Sheridan has recently made changes to our policies and procedures to address the key recommendations in the report of examination.

We would like to express our gratitude to the state auditors for the extensive time invested and the thoroughness of their review of the Town records. We greatly benefited from the services provided by the comptroller's office. The help is much appreciated and has enhanced the Town's management of the taxpayer's money.

Sincerely,

Thomas Wik
Town Supervisor
Town of Sheridan



The Town of Sheridan is an Equal Opportunity Provider and Employer
Complaints of discrimination should be sent to:
USDA, Director, Office of Civil Rights, Washington, DC 20250-9410

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials to gain an understanding of the Town's relationship with CBI, the processes for expending and collecting funds related to CBI, the rental of real property to CBI and the processes for land sales/donations.
- We reviewed Board meeting minutes for approvals of agreements for renting real property, approvals of expenditures for CBI, approvals of Town employees, and information regarding the land donation.
- We reviewed all expenditures from January 1, 2021 through July 25, 2022 to determine which were made on behalf of CBI.
- We reviewed all bank statements and deposit compositions from January 1, 2021 through July 25, 2022 to determine what funds were received from CBI.
- We reviewed land sales in the Town from January 1, 2021 through July 25, 2022 to calculate an estimated land value.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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 provided 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 the CAP available for public review in the Town Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.ny.gov/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.ny.gov/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.ny.gov/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.ny.gov/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.ny.gov/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.ny.gov/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.ny.gov/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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Contact

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<https://www.osc.ny.gov/local-government>

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