

# Town of Palatine

## Town Clerk/Tax Collector and Financial Management

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NOVEMBER 2017

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Town of Palatine

### Audit Objective

Determine whether the Town Clerk/Tax Collector (Clerk) maintained adequate records and deposited collections intact and timely.

Determine whether the Board adequately managed the Town's financial position by adopting realistic budgets, establishing a fund balance policy and developing long-term financial and capital plans.

### Key Findings

- The Clerk did not maintain adequate records of collections and did not deposit collections intact and timely.
- The Board did not adequately manage the Town's financial position by adopting realistic budgets and establishing a fund balance policy, a long-term financial plan and a long-term capital plan.

### Key Recommendations

- The Clerk should maintain adequate records of collections and deposit collections intact and timely as required by Law.
- The Board should adopt realistic budgets and establish a fund balance policy, a long-term financial plan and a long-term capital plan.

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

### Background

The Town of Palatine (Town) is located in Montgomery County (County). There are two villages in the Town: Nelliston and Palatine Bridge.

The Town is governed by the Town Board (Board) which is composed of the Town Supervisor (Supervisor) and four elected Board members. The Board is responsible for the general management and control of Town finances. The Supervisor is the chief executive officer and chief financial officer.

The Supervisor is also the Town's appointed budget officer. The Town's elected Town Clerk is the Tax Collector.

#### Quick Facts

2017 Budgeted Appropriations	<b>\$1,094,965</b>
2016 Clerk Collections	<b>\$9,900</b>
2016 Real Property Taxes	<b>\$433,170</b>

### Audit Period

January 1 – December 31, 2016. The audit period was extended back to the 2014 fiscal year to review budgeting and financial condition.

# Town Clerk and Tax Collector

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The Clerk's responsibilities include collecting money for copies of birth and death certificates; issuing marriage licenses, building permits, dog licenses and New York State Department of Environmental Conservation licenses; and remitting the collections on a monthly basis to applicable parties (the State and/or the Supervisor).

Under the Tax Collector role, the Clerk collects real property taxes pursuant to the annual warrant issued by the County Board of Legislators. The warrant directs the Clerk to collect taxes for the Town and County and remit them to the Supervisor and County Treasurer. The warrant for 2016 included taxes totaling \$3 million.

## **How Should the Clerk Account for Collections and Make Deposits?**

The Clerk is responsible for receiving, recording, depositing, disbursing and reporting all money collected for Town Clerk fees. Records and reports should be accurate and complete, and collections should be deposited intact (in the same amount and form as received) and timely. Collections should be deposited as soon as possible to reduce the risk of theft or misplacement. Town Law requires the Clerk to make deposits within three days of when collections accumulate to over \$250. The Clerk should also issue duplicate press-numbered receipts documenting the payer, purpose, amount, date of receipt and form of payment (cash, check or money order) for each payment received. Monthly bank reconciliations and accountability analyses enable the Clerk to verify the accuracy of the financial records.

As Tax Collector, the Clerk is also responsible for maintaining accurate and complete records and reports, depositing all collections intact and timely, disbursing tax collections to appropriate parties and performing periodic bank reconciliations. Town Law requires the Tax Collector to deposit all money collected within 24 hours of receipt. All collections must be documented with the payer's name and tax bill number, the parcel for which the payment was made, the amount paid and the form of payment.

## **The Clerk Did Not Maintain Adequate Records of Clerk Fees or Perform Bank Reconciliations**

The Clerk issued duplicate receipts for Clerk fees and recorded collections in the accounting system but did not record the form of collections in either record. We reviewed 330 collections received during two periods of three consecutive months<sup>1</sup> totaling \$5,748 and found that, except for minor discrepancies which

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<sup>1</sup> We reviewed all collections received during January, February, March, July, August and September 2016. See Appendix B for detail.

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we discussed with the Clerk, she issued duplicate receipts for all collections. However, neither the duplicate receipts nor the accounting system contained the form of collection even though both the receipts and the system could accommodate this information. The Clerk told us she was not aware that the payment form should be recorded. While individual deposits can be verified through the duplicate receipts for each collection, the form of payment is an additional control that can help identify the source of any potential discrepancies.

Finally, the Clerk did not perform monthly bank reconciliations to verify the accuracy of Town records (see also the section entitled “The Clerk Did Not Maintain Adequate Records of Tax Collections”) or accountability analyses comparing cash on hand and on deposit to known liabilities. These controls would provide added assurance that the Town’s accounting records are accurate and consistent with the adjusted bank balances in monthly bank statements.

### **The Clerk Did Not Deposit Clerk Fees Intact and Timely**

The Clerk made deposits on a monthly basis, generally within the first week of each month, and each deposit agreed with the total recorded collections for the prior month. Since the Clerk did not document whether collections were in the form of cash, check or money order on the duplicate receipts and accounting records, we could not use her records to determine whether deposits were made intact. Therefore, we traced deposit compositions (bank records that include images of all cash and checks in a deposit) for the six months selected and traced each collection to duplicate receipts, or other available supporting documents and the accounting records.

We found deposits were not made intact. In each of the six months, the Clerk substituted personal checks or subsequent months’ collections for cash collections when making deposits. For example, for the January 2016 collections deposited on February 3, 2016, the total deposit agreed with the total of January collections recorded, but the deposit included three checks totaling \$31 that were collected and recorded on February 3, 2016. Consequently, \$31 of cash received in January was not included in the deposit. The Clerk told us she regularly substituted subsequent months’ checks for cash in order to deposit the checks sooner. She also told us that she left the undeposited cash in her cash drawer until the next deposit. However, retaining cash collections in this manner increases the risk of theft or misplacement of funds. Further, all Clerk fee collections – regardless of composition – should be deposited timely and not just once a month.

Similarly, for the August 2016 collections deposited on September 7, 2016, the total deposit agreed with total of August collections recorded; however, the deposit included a check for \$98, written personally to the Clerk, which was substituted for \$98 in cash received in August. The Clerk told us she cashed this \$98 check from cash collections and another \$39 personal check for her convenience, and deposited a third personal check for \$100 to cover an unidentified variance between March 2016 collections recorded and money on hand to be deposited. The Clerk stated that when she counted collections to make the monthly deposit she identified the \$100 shortage and deposited a check issued to her by the Town<sup>2</sup> to cover the shortage. The Clerk also deposited a \$200 check written by the Assessor, which she told us was not associated with a collection, and cashed the check for the Assessor from available cash collected (Figure 1).

**Figure 1: Deposits of Clerk Fees**

	January	February	March	July	August	September	Total
<b>Total Collected</b>	\$486	\$488	\$741	\$440	\$1,407	\$2,187	\$5,749
<b>Total Deposited</b>	\$486	\$488	\$741	\$440	\$1,407	\$2,187	\$5,749
<b>Deposit Date</b>	2/04/16	3/01/16	4/05/16	8/03/16	9/07/16	10/03/16	
<b>Checks for Subsequent Month's Collections Included in Deposits:</b>							
<b>Total Checks</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>8</b>
<b>Total Amount</b>	\$31	\$0	\$0	\$11	\$25	\$11	\$78
<b>Personal Checks Included in Deposits:</b>							
<b>Total Checks</b>	0	1	1	0	1	1	4
<b>Total Amount</b>	\$0	\$39	\$100	\$0	\$98	\$200	\$437

Furthermore, because the Clerk did not maintain adequate records, we were unable to trace one \$10 check to any collection. The Clerk could not trace the check to a collection and said she must have forgotten to record it.

Additionally, because the Clerk made monthly deposits of collections received during the entire prior month, collections were not all deposited within three days of exceeding \$250 as required by Town Law. Deposits were made as much as 36 days from receipt date. The Clerk told us she was unaware of the deposit requirement.

The total collections recorded agreed with the total monthly deposits for the months we reviewed, except for the one minor collection (\$10) that was not recorded. However, when checks are substituted for cash collections, accountability over collections is diminished and there is reduced assurance that all collections received are deposited. Furthermore, when collections are kept on hand for long periods of time, the risk of theft or misplacement is increased.

<sup>2</sup> As payment for Registrar of Vital Statistics fees collected

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## The Clerk Did Not Maintain Adequate Records of Tax Collections

Taxpayers can pay their tax bills in full or in two installments. They receive a two-part tax bill: the top portion serves as the payer's receipt and the bottom portion (payment stub) is retained by the Clerk. The Clerk told us she stamps the payer's portion of the bill as paid, with the payment date, and writes down the amount paid, whether payment was made by cash, check or money order, and the check number, if applicable. If payment is made in two installments, the Clerk records both payments but does not stamp the bill paid until the second payment is made. However, the Clerk did not consistently record the form of payment on the payment stub that she retains.

Of the \$3 million levied in 2016, the Clerk collected \$2.1 million. We reviewed all 1,588 associated payment stubs and found that 59 (less than 4 percent) indicated whether payment was made by cash, check or money order.

The Clerk records tax collections using the County's web-based software and also maintains a spreadsheet to record daily collections. The Clerk's spreadsheet and County system documented daily most collection information appropriately, but lacked the form of payment. Furthermore, taxpayers' overpayments, refunds to taxpayers due to overpayments, and checks received to replace previously bounced checks were not documented in the collection records. We traced the payment stubs to the Clerk's spreadsheet and information recorded in the County's software and found that the stubs were appropriately recorded on the spreadsheet and in the software.

Additionally, the Clerk did not maintain a record of all deposits and disbursements and a running cash balance for tax collections. Therefore, she could not complete bank account reconciliations. While the Clerk did maintain a record of collections by date and tax remittances made to the Supervisor and County, this record was not adequate as it did not include overpayments, refunds issued to taxpayers for overpayments, reissued checks from taxpayers, or payments in lieu of taxes that the Clerk received.<sup>3</sup> The Clerk stated that she relied on online banking information to ensure her cash account balance was accurate; however, the online bank account balance is not a reliable source for this purpose because it does not reflect outstanding checks or deposits made but not yet posted.

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<sup>3</sup> The Clerk received payments in lieu of taxes which are not included on the tax warrant. The Clerk was then responsible for making disbursements to the Villages, School and County for their respective shares of these payments. Subsequent to our audit, these payments were remitted directly to and deposited by the Town Supervisor.

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When adequate records for tax collections and remittance are not maintained there is reduced assurance<sup>4</sup> that collections were accurately recorded. Furthermore, without records of deposits and disbursements and a running cash balance, no one can complete monthly bank account reconciliations to identify any discrepancies between the records and bank account activity.

### **The Clerk Deposited Tax Collections Intact But Not Timely**

Because payment stubs did not document whether payment was made by cash, check or money order, we could not use them to determine whether deposits were made intact. We obtained bank compositions and found that, aside from minor discrepancies which we discussed with the Clerk, deposits were made intact.

We reviewed the deposits made for the 2016 collections totaling approximately \$2.1 million and found that 564 collections totaling \$659,838 were deposited between two and 14 days after the collection date. For example, collections from February 4, 2016 were deposited on February 18, 2016; however, collections on February 8, 2016 were deposited on the same day. The Clerk stated that she did could not always make deposits daily because she could not always finish recording receipts, perform a daily cash-out reconciliation and make a deposit on the same day. However, this does not preclude her from making deposits the next day, within 24 hours as required by Town Law.

Holding collections for longer than necessary further increases the risk that collections could be lost or stolen.

### **What Do We Recommend?**

The Town Clerk/Tax Collector should:

1. Issue receipts or another acceptable form of documentation for all collections that include the date of receipt, payer, amount, description and form of payment.
2. Maintain appropriate accounting records for collections that document the date of receipt, payer, amount, description, and form of payment.
3. For tax collections, maintain a record of all deposits and disbursements and a running cash balance. The record should include overpayments, refunds to taxpayers for overpayments, reissued checks received, and payments in lieu of taxes.

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<sup>4</sup> 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, which are returned to the County Treasurer for collection and enforcement proceedings. This process provides limited assurance that tax collections are accurately accounted for. However, because penalties and overpayments are not included in this reconciliation, this process does not provide assurance related to these portions of tax collections.

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4. Make deposits of Town Clerk fees on a more frequent basis and within three days once collections exceed \$250 as required by Town Law.
  5. Make deposits of tax collections within 24 hours as required by Town Law.
  6. Deposit collections intact and discontinue the practice of substituting subsequent months' collections and personal checks for cash.
  7. Perform monthly bank reconciliations for both the Town Clerk and Tax Collector bank accounts and perform monthly accountabilities for Town Clerk collections.

# Financial Management

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## How Should the Board Manage the Town's Financial Position?

The Board is responsible for maintaining the Town's fiscal health while balancing the services desired by residents with the costs to provide those services (i.e., taxes levied). The Board should adopt reasonable budgets based on prior years' operating results, past revenue and expenditure trends, anticipated plans and other relevant information.

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 provides cash flow and can be used as a cushion against unforeseen circumstances or to help finance the next fiscal year's operations. The restricted portion of fund balance is the amount the Town may use only for specific purposes. The unrestricted portion may be appropriated to fund part of the next year's budget. The Board is responsible for determining a reasonable amount of fund balance<sup>5</sup> and documenting it in a fund balance policy. This determination should consider the timing of receipts and disbursements, volatility of revenues and expenditures, contingency appropriations and established reserves.<sup>6</sup> Reasonable fund balance levels and accurate budget estimates help ensure that the amount of real property taxes levied is not greater than necessary.

Additionally, the Board is responsible for establishing financial and capital plans that set long-term priorities and goals. Long-term planning helps the Board assess alternative approaches to financial issues, such as using surplus funds to finance annual operations, and plan for upcoming capital needs such as infrastructure repairs and equipment purchases.

## Budgetary Estimates for Certain Town-Wide Accounts Were Not Realistic

The Board adopted realistic budgets for the town-outside-village (TOV) general fund for the 2014 through 2016 fiscal years. However, the budgetary estimates for the town-wide (TW) general fund's revenues and TW general and highway fund's expenditures were not reasonable during this period.

Budgetary Estimates – From 2014 through 2016, the TW general fund realized a total of \$66,000 (7 percent) more revenue than estimated and expended \$102,000 (11 percent) less than planned. During the same period, the Board adopted reasonable estimates for revenues (actual total revenues were 2 percent

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<sup>5</sup> See <http://www.osc.state.ny.us/localgov/pubs/releases/budfund.htm> for more information.

<sup>6</sup> Town officials can legally set aside, or reserve, portions of fund balance to finance future costs for a specified purpose, or can designate the unexpended surplus portion of fund balance to either help finance the next year's budget or retain for future use.

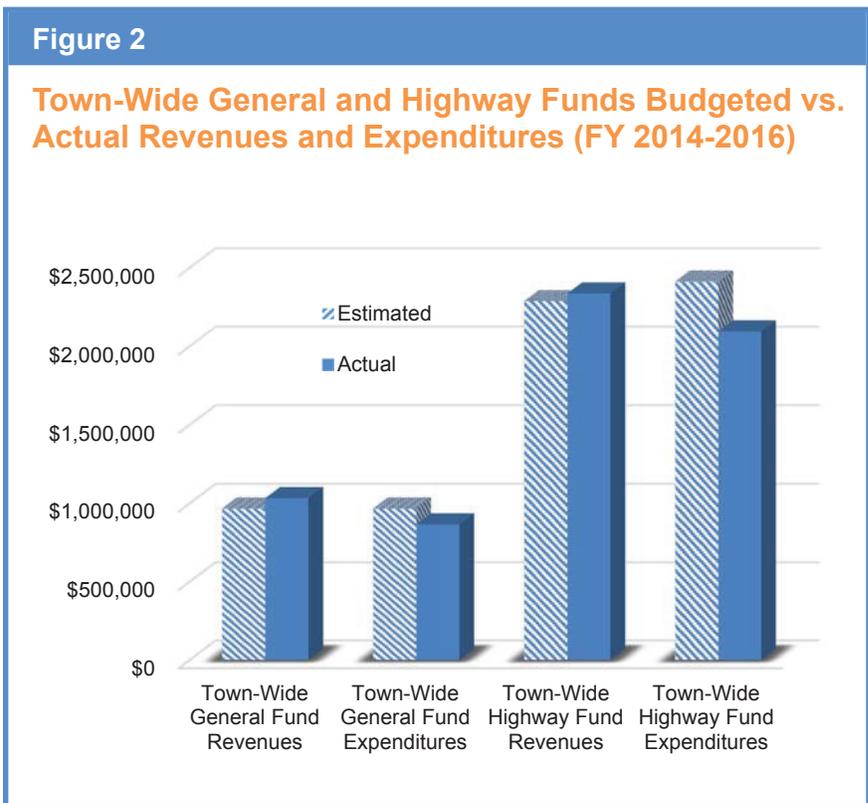
more than estimates) in the TW highway fund; however, actual expenditures were \$318,000 (13 percent) less than estimated amounts. The combination of receiving more revenues than planned while spending less money than planned (Figure 2) created operating surpluses for the TW general and highway funds.

During the three-year period 2014-2016, Town officials underestimated State aid revenue in the TW general fund while overestimating certain appropriations in TW funds. State aid revenue estimates in the TW general fund totaled \$74,000 but the Town received \$132,000 during that period. The Board also appropriated a total of \$60,000 (\$20,000 each year) for garage expenditures in the TW general fund but expended \$26,000.

Additionally, in the TW highway fund, appropriations for street maintenance totaled \$165,000 (\$55,000 annually) but the Town expended only \$106,000 during that period. Similarly, appropriations for machinery totaled \$120,000 (\$40,000 each year) but the Town expended \$102,000 during that period.

According to the Supervisor and Town bookkeeper, budget estimates were based on past budgets, not on past actual revenue and expenditure trends or on anticipated future revenues or costs. The Supervisor told us she did not want to modify prior budget estimates in case appropriations were overexpended or revenues were not realized as budgeted.

Fiscal Year 2017 Budget – In the adopted 2017 budget for the TW general fund, the Board nominally increased the revenue estimate for State aid by \$1,000 and decreased the appropriation for garage expenditures by \$5,000. However, based on historical trends, this fund is likely to again realize substantially more State aid revenue than budgeted and expend less than appropriated. Similarly, the 2017 budgeted expenditures for the TW highway fund do not appear reasonable based



on past actual expenditures. For example, appropriations for street maintenance (\$55,000) and machinery (\$40,000) remain at prior-year levels.

Results of Operations – The Board appropriated fund balance to finance expenditures in the TW highway fund from 2014 through 2016. However, since the Town received more revenue and expended less than planned, the TW highway fund realized operating surpluses in two of those years (2014 and 2016) and the Town did not have to use any fund balance to finance expenditures. In 2015, this fund received \$16,000 more revenue than estimated but also expended \$36,000 more than appropriated (primarily due to the unplanned purchase of a truck) and, as a result, incurred an operating deficit of \$57,475.

The TW general fund realized an operating surplus in each year from 2014 to 2016. The Board did not appropriate fund balance to finance expenditures.

**Figure 3: Results of Operations Town-Wide General and Highway Funds**

	2014	2015	2016
<b>Town-Wide General Fund</b>			
<b>Beginning Fund Balance</b>	\$702,465	\$787,455	\$847,692
<b>Revenues</b>	\$369,905	\$366,858	\$295,749
<b>Expenditures</b>	\$284,915	\$306,620	\$273,482
<b>Annual Operating Surplus</b>	\$84,990	\$60,238	\$22,267
<b>Ending Fund Balance</b>	\$787,455	\$847,693	\$869,959
<b>Town-Wide Highway Fund</b>			
<b>Beginning Fund Balance</b>	\$270,293	\$352,370	\$294,896
<b>Revenues</b>	\$743,888	\$769,299	\$822,753
<b>Expenditures</b>	\$661,810	\$826,774	\$605,789
<b>Annual Operating Surplus(Deficit)</b>	\$82,078	(\$57,475)	\$216,964
<b>Ending Fund Balance</b>	\$352,371	\$294,895	\$511,860

As a result of the operating surpluses in the TW general and highway funds, the fund balance of the TW general fund increased by \$167,494 (24 percent) and the TW highway fund balance by \$241,567 (89 percent) from the beginning of 2014 to the end of 2016. Furthermore, because the 2017 budget does not include realistic estimates of revenues and appropriations, it is likely these funds will realize operating surpluses in 2017, further increasing total fund balance.

## The Board Did Not Establish a Fund Balance Policy

The Board did not establish a reasonable level of fund balance or adopt a fund balance policy. The unrestricted fund balance in the TW general fund and TW highway fund at the 2016 year end represented 155 percent and 63 percent of 2017 appropriations, respectively.

**Figure 4: Fund Balance as a Percentage of Ensuing Years' Appropriations**

	2014	2015	2016
<b>Town-Wide General Fund</b>			
<b>Ending Fund Balance</b>	\$787,455	\$847,693	\$869,959
<b>Less: Reserved Fund Balance</b>	\$400,879	\$374,998	\$375,069
<b>Less: Appropriated Fund Balance</b>	\$0	\$0	\$0
<b>Unrestricted Fund Balance</b>	\$386,576	\$472,695	\$494,890
<b>Ensuing Year's Appropriations</b>	\$318,069	\$304,195	\$319,513
<b>Fund Balance as a Percentage of Ensuing Year Appropriations</b>	122%	155%	155%
<b>Town-Wide Highway Fund</b>			
<b>Ending Fund Balance</b>	\$352,371	\$294,895	\$511,860
<b>Less: Reserved Fund Balance<sup>a</sup></b>	\$0	\$0	\$0
<b>Less: Appropriated Fund Balance</b>	\$37,812	\$21,707	\$37,812
<b>Unrestricted Fund Balance</b>	\$314,559	\$273,188	\$474,048
<b>Ensuing Year's Appropriations</b>	\$791,000	\$810,855	\$755,101
<b>Fund Balance as a Percentage of Ensuing Year Appropriations</b>	40%	34%	63%

<sup>a</sup> The Town established an equipment reserve fund but did not maintain accounting records for it. As a result, we could not determine what balance, if any, was in the equipment reserve fund during our audit period. If there was a balance in this reserve during our audit period, town-wide highway fund unrestricted fund balance would be reduced by that balance.

Although the tax levy has not increased significantly (the total levy for the town-wide general and highway funds<sup>7</sup> increased by approximately 1 percent annually from 2014 to 2017) the Board did not appropriate TW general fund balance from 2014 through 2017 to reduce the levy. Town officials told us that they increased the tax levy but remained within the tax cap as a regular practice to allow for continued growth in the tax levy.

The circumstances that may substantiate a municipality maintaining a greater amount of fund balance do not exist at the Town. Town officials stated there are no unforeseen circumstances or revenues or expenditures that are volatile

<sup>7</sup> The Town does not levy taxes in the part-town general fund. Expenditures made from this fund are financed primarily by sales tax.

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that would require them to maintain a significant cushion in fund balance and the Town does not experience cash flow issues due to timing of receipts and disbursements. Furthermore, the Board includes a \$5,000 contingency appropriation annually in the TW general fund budget to protect the Town against unforeseen circumstances. While it is prudent to maintain adequate levels of fund balance, by also adopting conservative budgets and including contingency funds the Board is taking excessive measures that have increased the Town's fund balance. Without clear plans for the use of accumulated funds, Town officials may have raised taxes unnecessarily in the TW general and highway funds.

The Supervisor told us that the Board did not adopt a fund balance policy because Town officials felt they could not do so without adopting long-term capital plan or long-term financial plan. Additionally, one Board member stated that the Board felt it did not have the required knowledge to adopt a fund balance policy. We encourage the Board to develop appropriate capital and financial plans, in conjunction with developing a prudent fund balance policy based on the Town's long-term needs.<sup>8</sup>

Furthermore, the Town has a capital reserve totaling approximately \$400,000<sup>9</sup> in the TW general fund. Town officials were unsure whether the reserve was properly established or how to account for it. Additionally, the Town established an equipment reserve in the TW highway fund which had a balance of \$131,158 according to November 4, 2009 Board meeting minutes. Similar to the capital reserve, Town officials were unsure the equipment reserve was properly established and did not maintain accounting records for it. As a result, we could not determine the balance of this reserve during our audit period. Establishing reserves without a clear understanding of how to do so and without a clear plan for their use is not prudent and increases the likelihood that the taxes were levied for amounts greater than necessary.

### **The Board Did Not Adopt a Long-Term Financial or Capital Plan**

The Supervisor and Board are responsible for obtaining the information necessary to adopt a fund balance policy and develop long-term financial and capital planning.

The Highway Superintendent told us he proposed a replacement plan for highway equipment and presented it to the Board in August 2016, which the Board did not adopt. According to the Supervisor, the Board did not adopt the plan because members wanted to be sure it was based on best practices for equipment

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<sup>8</sup> Appendix B contains links to resources from the Comptroller's Office to help municipal officials in budget and policy planning.

<sup>9</sup> In the Board minutes of February 16, 2005, the Board passed a motion to establish a capital reserve in the amount of \$400,000 for the purpose of a new town hall.

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replacement, and were unsure whether the Superintendent's plan was based on such best practices. Additionally, the Board did not develop any other long-term financial or capital plan for Town needs not related to highway equipment. One Board member said the Board did not have sufficient information for long-term planning and needed to better understand the Town's reserves.

It is not necessary to establish reserves for developing a long-term plan. Without a long-term financial and capital plan, the Board is inhibited in its ability to effectively manage the Town's finances and plan for long-term capital replacement and other financing needs.

### **What Do We Recommend?**

The Board should:

8. Adopt a policy to establish the level of fund balance to be maintained in each fund.
9. Create a long-term financial plan and long-term capital plan for the Town.
10. Adopt reasonable budgets based on trends, realistic estimates and future plans.
11. Properly establish and account for reserves, and evaluate the existing capital and equipment reserves and develop plans for their use or discontinuation in a manner authorized by GML.
12. Take advantage of training resources offered by OSC (listed in Appendix C) which include online training, webinars and in-person instruction on financial management topics. The Academy for New York State's Local Officials offers a focused curriculum based on role. Details and a complete calendar are available at:

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

# Appendix A: Response From Town Officials

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**Town of Palatine**  
141 West Grand St.  
Palatine Bridge, NY 13428

October 3, 2017

Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396

Re: Town of Palatine Audit 2017M-101

To Whom it May Concern:

Thank you for the opportunity to participate in the audit process, a crucial local government accountability measure that will ultimately move the Town of Palatine toward greater efficiency, effectiveness, and transparency. As a new Town Supervisor, serving in my 2<sup>nd</sup> two-year term, alongside a new Town Council, the audit process was a helpful resource to us.

The findings of the audit report are divided into two sections, one regarding concerns related to the Town Clerk/Tax Collector, the other regarding Financial Management.

The key concerns raised regarding the Town Clerk/Tax Collector were: 1) The clerk did not maintain adequate records of clerk fees or perform bank reconciliations, 2) The clerk did not deposit clerk fees intact and timely, 3) The clerk did not maintain adequate records of tax collections, and 4) The clerk deposited tax collections intact but not timely.

These concerns are valid and irrefutable. As a separately elected official, the Town Clerk/Tax Collector is ultimately accountable to the voter. However, as a Town Board, we will work to address these concerns in the coming months to the extent we are able. The Corrective Action Plan will provide an opportunity to secure commitments to improvement.

The key concerns raised regarding the financial management were: 1) Budgetary estimates for certain town-wide accounts were not realistic, 2) The Board did not establish a fund balance policy, and 3) The Board did not adopt a long-term financial or capital plan.

Again, the concerns are valid. Unlike the day-to-day functions of the Town Clerk, who is separately accountable as an elected official, the Town's financial management is absolutely within the purview of the Town Board to oversee and correct.

Looking at the trends of the last four years, it is clear that in certain areas the Town Board budgeted too conservatively. That is, the Town budgeted more than was spent throughout the year. With the analysis provided by the audit and the recommendations of the State Comptroller, these issues are easily addressed. We now have the information we need to

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provide budgetary estimates that will more accurately reflect spending over the course of a budget year. These issues will be directly addressed in the Corrective Action Plan.

Over the years, the Town of Palatine has had a single barrier to adopting a fund balance policy and long-term financial plan. Town of Palatine municipal function has been disrupted by a long-standing claim that a significant part of fund balance was in fact a specific reserve to be used only to build a new Town Hall. As Town Supervisor, my first term in office was spent attempting to gather the facts in order to clarify the status of these funds before moving forward with a sound long-term financial plan. It is finally clear that we are not bound by the legal restrictions of a specific reserve. We may now move forward with the recommendations of the audit. As a new Town Council, we are committed to establishing a responsible fund balance policy as well as a long-term financial plan. These will be more specifically addressed in the Corrective Action Plan.

Once again, I thank you for the opportunity to participate in the audit process. It has provided an invaluable learning opportunity for all Town officials involved and will contribute to stronger fiscal function and responsibility in the years to come.

Sincerely,

Sara Niccoli  
Town Supervisor

## Appendix B: Audit Methodology and Standards

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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, we performed the following audit procedures:

- We interviewed the Clerk to gain an understanding of her process for Clerk fee collections and tax collections. We also interviewed Town officials to gain an understanding of their oversight of the Clerk.
- We tested 2016 Clerk fee collections for the months of January, February, March, July, August and September to determine if adequate records were maintained, receipts were issued, collections were accurately recorded, and deposits were intact and timely. We judgmentally selected these months to be consecutive and to represent two non-consecutive quarters of the fiscal year. We selected January, February and March because this period coincides with the tax collection season. We selected the remaining three months due to increased activity during the summer season.
- We tested all 2016 tax collections to determine whether adequate records were maintained and collections were accurately recorded and deposits were intact and timely.
- We analyzed the Town's budgeting practices and fund balance from 2014 through 2017.
- We interviewed Town officials to gain an understanding of their budgeting practices, including the appropriation of fund balance, and to determine whether they adopted a fund balance policy, long-term capital plan and long-term financial plan.

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

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.

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

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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 Clerk's office.

# Appendix C: Resources and Services

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## **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

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

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

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

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

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

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

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

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

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

[www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf)

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

[www.osc.state.ny.us/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

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

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: [localgov@osc.state.ny.us](mailto:localgov@osc.state.ny.us)

[www.osc.state.ny.us/localgov](http://www.osc.state.ny.us/localgov)

Local Government and School Accountability Help Line: (866) 321-8503

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