



Town of Lincklaen

Board Oversight

Report of Examination

Period Covered:

January 1, 2015 – December 16, 2016

2017M-37



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2018

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 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 Lincklaen, entitled Board Oversight. 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 Lincklaen (Town) is located in Chenango County and serves approximately 400 residents. The Town is governed by an elected five-member Town Board (Board), which is the legislative body responsible for overseeing the Town's operations and finances, including adopting and monitoring the budget. The Town Supervisor is a Board member and serves as the Town's chief executive officer, chief fiscal officer and budget officer responsible for the daily financial operations, including maintaining accounting records. He appointed a bookkeeper to help maintain the accounting records.

The Town provides various services to its residents including road repair and maintenance, snow removal, recreation, justice court operations and general government support. The Town's 2017 budgeted appropriations for both the general and highway funds totaled approximately \$535,000, funded primarily with real property taxes, sales taxes and State aid.

Scope and Objective

The objective of our audit was to examine the Board's oversight of Town financial activities for the period January 1, 2015 through December 16, 2016. We extended our scope period back to January 1, 2014 and forward to December 31, 2016 to analyze financial trends in the general and highway funds. Our audit addressed the following related question:

- Did the Board provide adequate oversight of the Town's financial operations?

Audit Results

The Board should improve its oversight of Town operations. From 2014 through 2016, the Town accumulated combined (general and highway) town-wide fund balances that increased by 15 percent resulting in an accumulation of \$842,000, or 158 percent of the next year's budget. However, Town officials had no clear plans to use these funds and have not developed a fund balance policy, established any reserve funds or developed formal long-term capital or financial plans. As a result, the Board may have unnecessarily raised real property taxes.

Town officials did not establish and implement necessary controls over the disbursement process to safeguard Town money. We found that no one reviewed bank reconciliations or canceled check images to ensure all disbursements made were Board-approved and for proper purposes. While our review of 89 disbursements totaling \$86,400 and 22 withdrawals totaling \$1.2 million disclosed that these disbursements were for appropriate purposes, when the bookkeeper's responsibilities include performing most aspects of the Town's disbursement process with little oversight and no compensating

controls in place, there is an increased risk of recordkeeping errors or loss of Town funds due to errors or irregularities.

Finally, the Board did not annually audit the records of the Supervisor, Town Clerk/Tax Collector (Clerk/Collector) or Justice. Our review of the Clerk/Collector's records disclosed no discrepancies. We also reviewed all the Justice's bank statements and the 11 disbursements totaling \$2,400 made during our audit period. However, on five separate occasions we requested that the Justice provide us with the Court receipt records and he failed to do so. Because the Justice failed to provide supporting documentation for Court receipts, we were unable to determine if all the money the Court should have collected was actually deposited.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

Introduction

Background

The Town of Lincklaen (Town) is located in Chenango County and serves approximately 400 residents. The elected five-member Town Board (Board) is the legislative body responsible for overseeing the Town's operations and finances, including adopting and monitoring the budget. The Town Supervisor (Supervisor) is a Board member and serves as the Town's chief executive officer, chief fiscal officer and budget officer. The Supervisor is responsible for the daily financial operations, including maintaining accounting records. He appointed a bookkeeper to help maintain the accounting records.

The Town provides various services to its residents including road repair and maintenance, snow removal, recreation, justice court operations and general government support. The Town's 2017 budgeted appropriations for both the general and highway funds totaled approximately \$535,000, funded primarily with real property taxes, sales taxes and State aid.

Objective

The objective of our audit was to examine the Board's oversight of Town financial activities. Our audit addressed the following related question:

- Did the Board provide adequate oversight of the Town's financial operations?

Scope and Methodology

We examined selected Town financial operations for the period January 1, 2015 through December 16, 2016. We extended our scope period back to January 1, 2014 and forward to December 31, 2016 to analyze financial trends in the general and highway funds.

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 C 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. Except as specified in Appendix A, Town officials generally agreed with our

recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

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 Town Clerk's office.

Board Oversight

The Board is responsible for providing oversight of Town operations and making sound financial decisions in the best interest of the Town and the residents. To properly oversee financial operations, the Board should establish policies and procedures to govern budgeting practices and the levels of fund balance to be maintained. The Board is permitted by law to establish and place money in reserves to finance the future costs for a variety of purposes (e.g., capital projects).

Additionally, the Board is responsible for establishing internal controls to provide reasonable assurance that Town resources are adequately safeguarded and accounted for and financial transactions are properly authorized. Furthermore, New York State Town Law requires the Board to annually audit the records of Town officers and employees responsible for receiving and disbursing money.

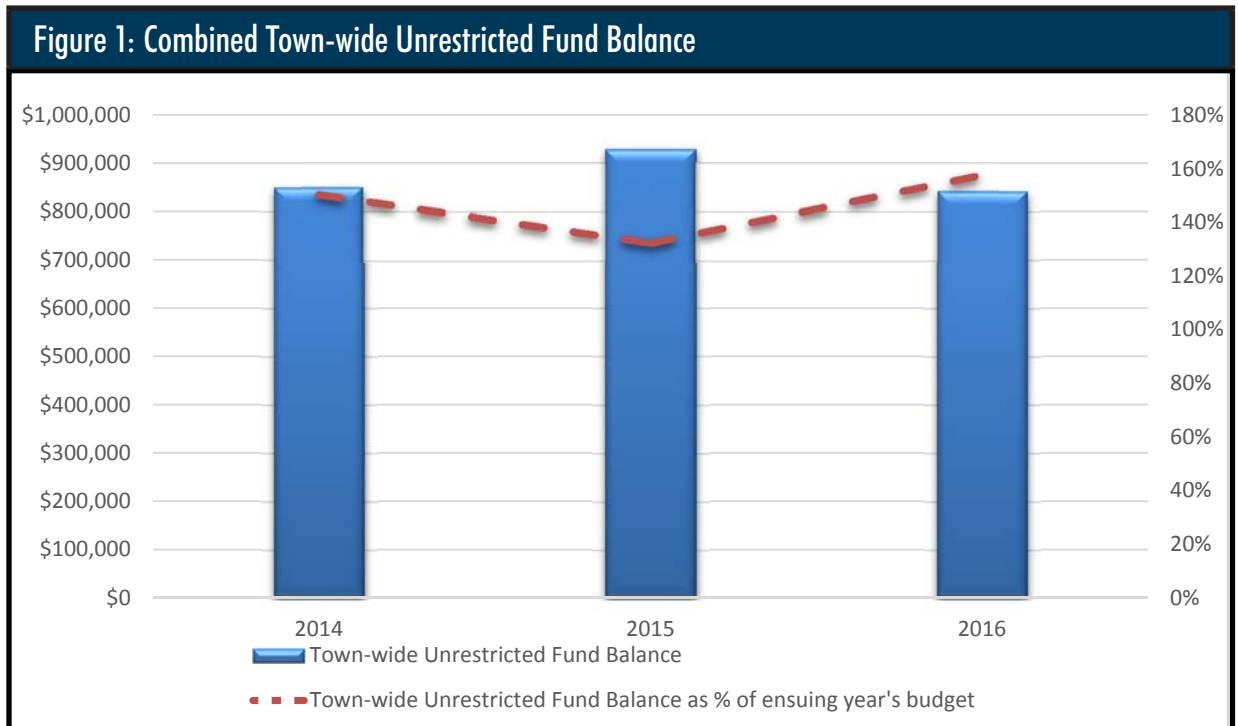
The Board should improve its oversight of Town operations. The Town accumulated significant fund balance in the general and highway town-wide funds without clear plans to use this money. Town officials have not developed a fund balance policy, established any reserve funds or developed formal long-term capital or financial plans. As a result, the Board may have unnecessarily raised real property taxes. Furthermore, the Board and Supervisor did not establish and implement necessary controls over the disbursement process to safeguard Town money. Finally, the Board did not annually audit the records of the Supervisor, Town Clerk/Tax Collector (Clerk/Collector) or Justice.

Budgeting and Fund Balance

The Board may retain a reasonable portion of fund balance to be available in the event of unforeseen circumstances and to provide cash flow to compensate for timing differences between when revenues are received and disbursements are made. Accordingly, the Board should establish reasonable levels of fund balance to be maintained.

It is also important for the Board to plan for the future by setting adequate long-term priorities and goals. Having a long-term financial plan helps the Board assess alternative approaches to financial issues, such as accumulating fund balance, obtaining financing or using surplus funds to finance annual operations. A fund balance policy, which provides guidance on how fund balance will be used, is an important component of any long-term financial plan. Lastly, it is essential the Board use sound budgeting practices to ensure that estimates of revenues and expenditures are reasonable and the amount of real property taxes levied is not higher than necessary.

From 2014 through 2016, combined (general and highway) town-wide fund balances increased by 15 percent resulting in an accumulation of \$842,000, or 158 percent of the next year's budget. Despite the significant accumulated fund balance, the Board continued to increase the tax levy, within the tax cap,¹ by an annual average of 1.5 percent, or a total of \$16,000 over these years.



This occurred because the Board adopted budgets that included unreasonable revenue and expenditure estimates. For example, Town officials underestimated revenues by \$271,000 (an average of 18 percent) and overestimated expenditures by \$205,000 (an average of 11 percent) during the audit period. The revenue variances were primarily driven by budgeting overly conserve for sales tax revenue, while expenditure variances occurred across several budget line items that varied from year-to-year.

The Supervisor told us that he considers historical trends and presents conservative budget estimates to the Board during the budgeting process. However, the Board has not developed a fund balance policy or comprehensive long-term financial and capital plans specifying the Town's objectives and goals for using the accumulated funds. While Town officials purchased a \$200,000 truck with highway surplus funds in 2016, this did not result in a significant reduction in fund balance levels.

¹ The State's property tax cap, with some exceptions, limits the amount towns can increase property taxes to the lower of 2 percent or the rate of inflation. Town boards may pass a local law to override the tax cap.

While it is prudent to budget conservatively to protect against unforeseen circumstances, doing so while maintaining fund balance at greater than reasonable levels contributes to tax levies that may be higher than necessary.

Disbursements

The Supervisor and Board are responsible for ensuring that all money disbursed is for proper Town purposes. This responsibility includes designing internal controls to ensure that no individual performs all key disbursement functions (e.g., preparing checks, recording transactions and reconciling bank accounts). When it is not practical or cost-effective to segregate duties, the Supervisor and the Board should implement compensating controls, such as performing an independent review of bank statements, bank reconciliations and canceled check images.

The Supervisor and Board did not establish and implement adequate controls to ensure that all money disbursed was for proper Town purposes. The bookkeeper performed most aspects of the disbursements process including preparing checks, recording transactions and reconciling the bank accounts. The Supervisor reviewed and signed the checks and the Board reviewed and approved claims. However, no one reviewed bank reconciliations or canceled check images to ensure all disbursements made were Board-approved and for proper purposes.

Because of these weaknesses, we reviewed 89 disbursements totaling \$86,400 and 22 withdrawals totaling \$1.2 million to determine whether they were for proper Town purposes. We found that these disbursements were for appropriate purposes.

When the bookkeeper's responsibilities include performing most aspects of the Town's disbursement process with little oversight and no compensating controls in place, there is an increased risk of recordkeeping errors or loss of Town funds due to errors or irregularities. As a result, the Board cannot be certain that funds are used solely for legitimate Town purposes and inappropriate activity may not be detected in a timely manner.

Annual Audit

The Board's annual audit of the financial details of departmental operations should be thorough and the results should be documented in Board minutes. When done properly, such audits can provide Board members with a better understanding of those operations, which is essential to effective oversight. An annual audit is especially important when segregation of duties is limited.

The Board reviewed vouchers and monthly budget-to-actual and cash reports. However, it did not annually audit the records of the

Supervisor, Justice or Clerk/Collector as required. Board members told us that the Board did not perform the necessary audits of the Supervisor and Clerk/Collector because they were unaware of the legal requirement. Although the Board requested the Justice to provide his records for audit, the Justice did not do so.

We reviewed all the Clerk/Collector's bank statements and canceled check images for our audit period to determine whether the disbursements made were for proper Town purposes. We also reviewed five real property tax bill collections totaling \$18,500 and 17 dog licensing fees collected totaling \$170 to determine whether the money collected was recorded and deposited in a timely manner. Our review of the Clerk/Collector's records disclosed no discrepancies.

We also reviewed all the Justice's bank statements and the 11 disbursements totaling \$2,400 made during our audit period. Furthermore, on five separate occasions we requested that the Justice provide us with the Court receipt records and he failed to do so. Because the Justice failed to provide supporting documentation for Court receipts, we were unable to determine if all the money the Court should have collected was actually deposited.

Without annual audits the Board's ability to effectively monitor Town financial operations is diminished and errors or irregularities could occur and remain undetected and uncorrected. This risk is compounded because of the lack of segregation of duties in the disbursement process. We provided the Board with annual audit guidance available in the OSC publication titled *Fiscal Oversight Responsibilities of the Governing Board*.²

Recommendations

The Board should:

1. Adopt a comprehensive fund balance policy that addresses its budgeting practices and establishes the levels of fund balance to be maintained.
2. Adopt budgets that realistically reflect the Town's operating needs based on historical trends or other known trends.
3. Reduce the amounts of general and highway town-wide fund balances and use the excess funds as a financing source in a manner that benefits Town residents. Such uses could include, but are not limited to:
 - Funding one-time expenditures.

² http://www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf

- Funding needed reserves.
 - Reducing real property taxes.
4. Ensure that a survey of the Town's long-term financial and capital needs is conducted to determine how these needs will be addressed in the future and develop formal long-term capital and financial plans based on the survey results.
 5. Perform annual audits of records of all Town officials who receive and disburse funds.

The Supervisor and Board should:

6. Establish and implement internal controls to lessen the risks associated with the lack of segregation of duties in the disbursement process.

The Justice should:

7. Present his books and records for audit by the Town Board.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

**COUNTY OF CHENANGO
BOARD OF SUPERVISORS**



Telephone : (315) 852-6000

Wayne C. Outwater, Supervisor
TOWN OF LINCKLAEN
1521 County RT 12
DeRuyter, N. Y. 13052

5 Court Street
Norwich, N. Y. 13815

January 4, 2018

[REDACTED]
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Comptroller's Office,

I have received your audit and recommendations for the Town of Lincklaen. Your findings have reviewed with our Town Board. Your auditors were very professional, polite and helpful during the audit for the Town of Lincklaen. We, as a Town, do not agree with everything in your report, but will be sending your office an action plan based on your recommendations within the next 90 days. Our concerns that we would like to be noted are as follows:

1. It took a year to get the audit report back to the Town, however, your office expects a recommendation plan to be submitted back within 90 days (2 board meetings time frame).
2. We also believe that the report should note that the Town of Lincklaen has met the required Comptroller tax cap every single year!
3. We also believe that it should be noted in this report that your 2-year audit of records found absolutely NO mistakes or discrepancies (per your auditors).

See
Note 1
Page 13

See
Note 2
Page 13

See
Note 3
Page 13

Sincerely,

Wayne C. Outwater
Lincklaen Town Supervisor

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

The majority of our onsite audit fieldwork was completed by January 25, 2017 when we shared our findings with the Supervisor. We referred our audit to our Division of Investigations, which maintained an active investigation of the Justice, because he failed to provide us with requested Court records. We followed Generally Accepted Government Auditing Standard 6.35 regarding ongoing investigations and legal proceedings.³ Once the investigation was concluded, the audit team promptly scheduled our exit conference meeting, which was held on December 14, 2017.

Note 2

As stated in our audit report, from 2014 through 2016 the Board continued to increase the tax levy, within the tax cap.

Note 3

As stated in our report, our audit objective was to determine whether the Board provided adequate oversight of the Town's financial operations. As part of our audit, we reviewed and tested certain disbursements and receipt records, not 100 percent of all Town records. See Appendix C for more information on our sampling methodology.

³ GAO-12-331G Government Auditing Standards 6.35. Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse. Laws, regulations, and policies may require auditors to report indications of certain types of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse to law enforcement or investigatory authorities before performing additional audit procedures. When investigations or legal proceedings are initiated or in process, auditors should evaluate the impact on the current audit. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities, or withdraw from or defer further work on the audit or a portion of the audit to avoid interfering with an ongoing investigation or legal proceeding.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials and employees and reviewed Board minutes to gain an understanding of the Board's oversight of financial operations including the budget and disbursement processes to determine whether reserves and fund balance levels were established and whether the Board performed annual audits of the records of all Town officials and employees who received and disbursed funds.
- We reviewed the general and highway fund balances for 2014 through 2016 to determine whether fund balance levels were reasonable.
- We compared general and highway funds budgeted revenues and appropriations to the actual revenues and expenditures from 2014 through 2016. We also compared the results of operations for this same period to the budgeted appropriated fund balance to determine whether the Board adopted reasonable budgets.
- We reviewed the tax levies for 2013 through 2016 to determine trends in the amounts levied and whether the levies stayed within the tax cap limitations.
- We reviewed a judgmentally selected sample of 89 general and highway fund disbursements to determine whether they were Board-approved, for proper Town purposes and accurately recorded.
- We reviewed all 22 withdrawals shown on the bank statements to determine whether they were for proper Town purposes.
- We reviewed six judgmentally selected months of credit card statements to determine if purchases were properly supported and for appropriate Town purposes.
- We reviewed all the Clerk/Collector's bank statements and canceled check images for our audit period to determine whether the disbursements made were for proper Town purposes. We also reviewed five judgmentally selected tax bill collections and 17 dog licensing fees collections to determine whether the money received was recorded and deposited in a timely manner.
- We reviewed all the Justice's bank statements and all 11 canceled check images for January 2015 to December 2016 to determine whether these disbursements 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 D

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