

# Town of Oswego

## Financial Condition and Information Technology

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MARCH 2018

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

# Contents

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<b>Report Highlights</b> . . . . .	<b>1</b>
<b>Financial Condition</b> . . . . .	<b>2</b>
What Is Effective Financial Condition Management? . . . . .	2
General Fund Balance Has Declined 89 Percent From Fiscal Years 2014 Through 2016 . . . . .	2
The Highway Fund Has Had a Deficit Unrestricted Fund Balance From Fiscal Years 2014 Through 2016 . . . . .	5
Sleepy Hollow Sewer District Fund Balance Has Declined From Fiscal Years 2014 Through 2016 . . . . .	8
The Board Did Not Adequately Monitor the Budget . . . . .	9
How Does Multiyear Planning Help Improve Budgeting? . . . . .	10
Town Officials Do Not Have Multiyear Financial and Capital Plans . . . . .	11
What Do We Recommend? . . . . .	11
<b>Information Technology (IT)</b> . . . . .	<b>12</b>
What IT Security Policies and Procedures Should the Board Adopt to Safeguard the Town's IT Resources? . . . . .	12
The Board Did Not Adopt IT Security Policies and Procedures . . . . .	12
What Do We Recommend? . . . . .	13
<b>Appendix A – Response From Town Officials</b> . . . . .	<b>14</b>
<b>Appendix B – Audit Methodology and Standards</b> . . . . .	<b>17</b>
<b>Appendix C – Resources and Services</b> . . . . .	<b>19</b>

# Report Highlights

## Town of Oswego

### Audit Objectives

Determine whether the Board adopted realistic budgets that were structurally balanced and whether officials adequately monitored the Town's financial operations.

Determine whether the Board adopted adequate policies and procedures to safeguard the Town's information technology (IT) resources.

### Key Findings

- The Board has not developed realistic budgets and has not adequately monitored the budgets. As a result, from 2014 through 2016, fund balance in the general fund declined from about \$478,000 to \$51,000 (89 percent) and declined in the Sleepy Hollow sewer district fund from \$31,503 to \$3,521 (89 percent). The highway fund also had a deficit unrestricted fund balance during this period of as much as \$66,491.
- The Board has not adopted multiyear financial and capital plans.
- The Board did not adopt IT breach notification policies and procedures, back-up procedures and a disaster recovery plan.

### Key Recommendations

- Develop and adopt budgets with realistic estimates of revenues and expenditures based on historical trends or other known factors.
- Develop and adopt multiyear financial and capital plans.
- Adopt a disaster recovery plan and policies and procedures for breach notification and data back-up.

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

### Background

The Town of Oswego (Town) is located in Oswego County (County). The Town provides general government administration, street maintenance, snow removal, cemetery, sewer and lighting services to its residents. The Town has two sewer districts, Sleepy Hollow and Ontario Heights, that administer sewer services.

The elected five-member Town Board (Board) is the legislative body responsible for managing the Town's operations. The Supervisor, a Board member, is the chief financial officer and budget officer and is responsible for the Town's day-to-day management under the Board's direction.<sup>1</sup> The Supervisor is also the administrator of the Town's IT resources.

#### Quick Facts

Employees	31
Population	7,913
2017 Budgeted Appropriations	\$2.0 million

### Audit Period

January 1, 2016 - June 30, 2017

We extended the audit period to January 1, 2014 to analyze the Town's budgeting and fund balance trends.

<sup>1</sup> The current Supervisor took office in January 2016.

# Financial Condition

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## What Is Effective Financial Condition Management?

To effectively manage financial condition, the Board must adopt realistic and structurally balanced budgets based on historical or known trends, which provide sufficient recurring revenues to finance recurring expenditures. Once the budget has been adopted,<sup>2</sup> the Board should review year-to-date budget-to-actual reports, inquire about revenues and expenditures not meeting expectations, and ensure corrective action or budget amendments are implemented before financial condition is negatively affected. In addition, Town Law requires that the Supervisor should not permit any fund or appropriation account to be overdrawn at any time. Although the Board may authorize the Supervisor to temporarily advance funds that are not immediately needed in one fund to another, repayment of the advance must be made by the close of the fiscal year in which the advance was made.

Fund balance is the difference between revenues and expenditures accumulated over time. If annual revenues are not sufficient to fund expenditures, an operating deficit will occur. When a town has recurring annual operating deficits, fund balance will be depleted and ultimately will go into a deficit position.

Maintaining a reasonable level of unrestricted fund balance<sup>3</sup> is an essential component of financial management. If the amount retained is too low, a town may not have a sufficient financial cushion for managing emergencies or other unanticipated occurrences.

## General Fund Balance Has Declined 89 Percent From Fiscal Years 2014 Through 2016

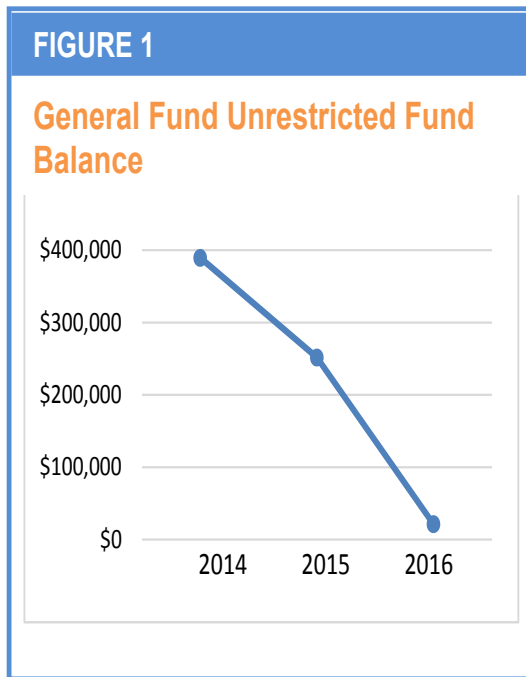
The Board needs to improve its monitoring of the Town's financial operations and take timely action to maintain the Town's financial stability. From 2014 through 2016, the total fund balance in the general fund declined 89 percent from about \$478,300 to \$51,000. Fund balance decreased as a result of inaccurate budget estimates and ineffective monitoring of the adopted budgets throughout the year.

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<sup>2</sup> Budgets for the following year are developed and adopted by November of the current year.

<sup>3</sup> For the purposes of this report, unrestricted fund balance represents total fund balance less reserves and amounts appropriated to fund the next year's budget.

- The Town ended 2014 with unrestricted fund balance of \$389,209, which was 44.1 percent of the ensuing year's appropriations of \$883,172.
- The unrestricted fund balance declined to \$21,027 by the end of 2016 (Figure 1). This is 2.6 percent of the ensuing year's appropriations of \$812,433 and leaves the Town with a very limited financial cushion for managing potential revenue shortfalls or unanticipated costs.



The general fund experienced operating deficits of \$211,400 in 2015 and \$215,872 in 2016. Although the Board adopted budgets with planned operating deficits<sup>4</sup> of \$89,090 and \$15,395, respectively, actual operating deficits far exceeded the planned deficits by \$122,310 and \$200,477 in 2015 and 2016, respectively. The operating deficits were larger than expected because the Board overestimated revenues and underestimated expenditures both years. Figure 2 shows a comparison between budgeted and actual revenues and expenditures for the last three completed years and the resulting operating deficits.

<sup>4</sup> A planned deficit occurs when a municipality purposely adopts a budget in which expenditures are greater than revenues, with the difference to be funded with appropriated fund balance and/or reserve funds.

**Figure 2: General Fund Budget-to-Actual Comparison**

	2014	2015	2016	Total
<b>Estimated Revenues (Original Budget)</b>	\$848,012	\$794,082	\$843,168	\$2,485,262
<b>Actual Revenues</b>	\$839,865	\$735,432	\$746,020	\$2,321,317
<b>Amount Over/(Under) Budget</b>	(\$8,147)	(\$58,650)	(\$97,148)	(\$163,945)
<b>Percentage Over/(Under) Budget</b>	(1%)	(7%)	(12%)	(7%)
<b>Budgeted Appropriations (Original Budget)</b>	\$848,012	\$883,172	\$858,563	\$2,589,747
<b>Actual Expenditures</b>	\$841,237	\$946,832	\$961,892	\$2,749,961
<b>Amount (Over)/Under Budget</b>	\$6,775	(\$63,660)	(\$103,329)	(\$160,214)
<b>Percentage (Over)/ Under Budget</b>	1%	(7%)	(12%)	(6%)
<b>Planned Operating Deficit (Appropriated Fund Balance)</b>	\$0	(\$89,090)	(\$15,395)	(\$104,485)
<b>Actual Operating Deficit</b>	(\$1,372)	(\$211,400)	(\$215,872)	(\$428,644)
<b>Difference Between Planned and Actual Operating Deficit</b>	\$1,372	\$122,310	\$200,477	\$324,159

In 2015, Payments in Lieu of Taxes (PILOT) revenues decreased \$121,198 (97 percent) from the prior year. To help fill the budget gap from this decrease, the Board increased real property taxes by \$25,370 (24 percent) and appropriated \$89,090 in fund balance in the 2015 adopted budget. In the 2016 budget, the Board kept the real property tax levy the same as the prior year (\$129,862) and appropriated additional fund balance of \$15,395. However, for both years, the Town did not receive all the budgeted revenues and officials did not keep spending within budgeted amounts. This caused fund balance to decline significantly more than planned.

We reviewed budget-to-actual reports for 2015 and 2016 and found the following significant variances:

- Sales tax revenues were overestimated by \$60,938 (25 percent) in 2015 and \$114,781 (47 percent) in 2016.
- A \$66,491 unbudgeted interfund transfer was made to the highway fund in 2015 to eliminate its fund balance deficit.
- Health insurance expenditures were \$73,008 (49 percent) more than budgeted in 2016.
- At the end of 2015, the Board approved the purchase of a building to be used as a community center and historical society museum. This resulted in \$10,000 additional unbudgeted costs for 2016.
- A former bookkeeper retired in 2016 and received a payout for unused leave time totaling \$7,522 that was not budgeted.

The Supervisor and Board recognized that the Town was going to end 2016 with a relatively low unrestricted fund balance (about \$21,000), so they did not appropriate any fund balance to finance the 2017 budget. The Board increased real property taxes in 2017 by \$46,629 (36 percent) to \$176,491 and also reduced total appropriations by \$46,130 (5 percent) from \$858,562 to \$812,433. In an effort to reduce costs, in 2016, Town officials sought an alternative health insurance plan for retirees and reduced the appropriations for health insurance by \$68,000 in the 2017 adopted budget. However, the Town could not realize this savings in 2017 because the bargaining unit that covers retirees did not agree with the proposed changes. As a result, we project the Town may overspend its budgeted health insurance costs by over \$26,000 in 2017.

We reviewed the 2017 budget and the year-to-date operations and discussed projected revenues and expenditures through December 31, 2017 with the Supervisor. The Supervisor anticipates a small operating surplus in the general fund if the Town receives all projected revenues. We determined the Town's 2017 revenue estimates were reasonable.

### The Highway Fund Has Had a Deficit Unrestricted Fund Balance From Fiscal Years 2014 Through 2016

The highway fund has had a deficit unrestricted fund balance from 2014 through 2016. Figure 3 illustrates the highway fund's operating results and fund balance.

**Figure 3: Highway Fund Operating Results and Fund Balance**

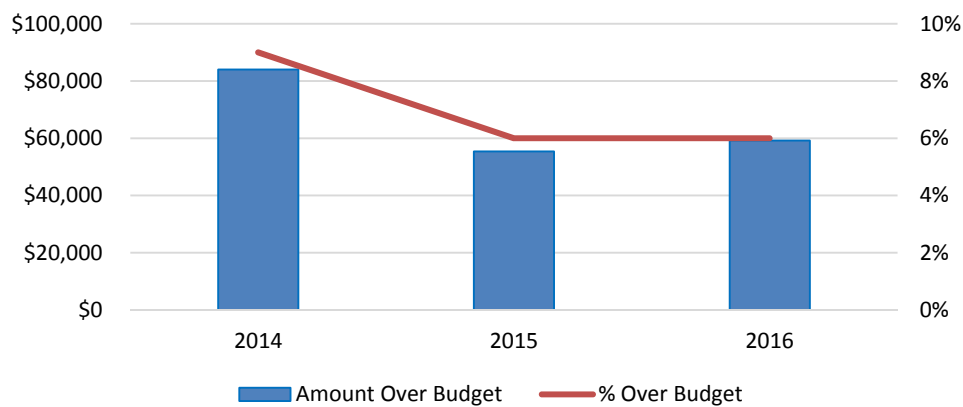
	2014	2015	2016
<b>Beginning Fund Balance</b>	(\$19,858)	(\$66,394)	\$6,123 <sup>a</sup>
<b>Revenues</b>	\$1,010,169	\$1,115,780	\$1,028,149
<b>Expenditures</b>	\$1,056,705	\$1,043,263	\$1,072,848
<b>Operating Surplus/(Deficit)</b>	(\$46,536)	\$72,517	(\$44,699)
<b>Ending Fund Balance</b>	(\$66,394)	\$6,123	(\$38,576)
<b>Less: Restricted Fund Balance</b>	\$97	\$97	\$97
<b>Less: Audit Adjustment</b>		\$6,644 <sup>a</sup>	
<b>Unrestricted Fund Balance</b>	(\$66,491)	(\$618)	(\$38,673)

<sup>a</sup> Accounts receivable recorded on December 31, 2015 was reversed by the Town on January 1, 2016 because Town officials told us it was not an actual receivable due to the Town. As a result, we adjusted the 2015 fund balance for the receivable recorded in error in 2015.

Overall, the budget estimates for revenues were generally reasonable. However, the Board underestimated expenditures by an average of \$66,000 annually (7 percent) or a cumulative total of nearly \$200,000 (7 percent), from 2014 through 2016 (Figure 4).

**FIGURE 4**

**Highway Fund Expenditures In Excess of Budgeted Amounts**



Because the Town spent more than it budgeted in the highway fund, it incurred unplanned operating deficits of \$46,536 in 2014 and \$44,699 in 2016. In 2015, the highway fund generated an operating surplus totaling \$72,517, mainly because the general fund transferred money to the highway fund to eliminate its \$66,491 unrestricted fund balance deficit, which carried over from 2014.

Based on our review of the 2015 and 2016 budget-to-actual reports, the Town primarily exceeded appropriations for personal services and health insurance. For example:

- Personal service costs were overexpended by \$31,521 (8 percent) in 2015 and \$46,785 (12 percent) in 2016. Expenditures exceeded the original budget in 2016 because a highway employee retired in 2016 and received a payout totaling \$47,284<sup>5</sup> for unused sick and vacation time not budgeted. Although Town officials were notified of the employee's planned retirement prior to the adoption of the 2016 budget, they did not budget for the payout costs.
- Health insurance costs were \$15,354 (11 percent) more than budgeted in 2016.

<sup>5</sup> \$41,669 unused sick leave; \$5,615 unused vacation time



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Because the highway fund overexpended its annual budget and maintained a deficit fund balance, it has relied on interfund advances from the general fund to maintain cash flow and pay its obligations. The highway fund reported a \$177,797 interfund advance (due to other funds) from the general fund from 2013 through 2015. The Supervisor repaid the advance during 2016. However, additional interfund advances from the general fund were required during the year to help with cash flow that were not Board approved. At the end of 2016, the highway fund owed the general fund a net amount of nearly \$46,000; but lacked sufficient funds to pay off the loan due to a deficit fund balance of about \$39,000.

We reviewed the 2017 budget and year-to-date operating results. The highway budget increased by \$81,567 (8 percent) from \$1.01 million to \$1.1 million. In addition, real property taxes increased by \$59,846 (9 percent). We discussed projected revenues and expenditures through December 31, 2017 with the Highway Superintendent and Supervisor. As a result, we determined the Town's revenue estimates were not reasonable and have identified that intergovernmental charges and rental equipment revenues were overbudgeted by about \$33,300.<sup>6</sup> While the highway fund received unanticipated revenues of \$7,500 for culvert installation, the highway fund may fall short in total revenues by about \$25,800. Furthermore, as with the general fund, Town officials also decreased the health insurance appropriation by \$23,500 due to a proposed change in the retirees' health insurance plan. However, the bargaining unit that covers retirees did not agree with the proposed changes to the health insurance plan which would allow this savings. As a result, we project health insurance costs to be overexpended by \$48,000, which could further impact the highway fund's financial condition.

The Highway Superintendent told us that he was conservative when developing the 2017 budget for intergovernmental charges and rental of equipment. However, he realized in March that his estimate was not conservative enough and immediately began limiting spending in personnel and contractual accounts. Although there was an attempt to decrease spending, the highway department purchased a new pickup truck totaling \$32,215 in 2017 that was not in the budget. Town officials told us this purchase was to be paid, in part, from revenues received from equipment sales totaling \$21,675 in 2016. However, these revenues were not available to help finance the 2017 purchase because 2016 total expenditures exceeded total revenues by about \$44,700, causing the highway fund to end the year with a fund balance deficit. As a result of this purchase, the overexpended health insurance costs and underestimated revenues, year-end fund balance will likely remain in a deficit at the end of 2017.

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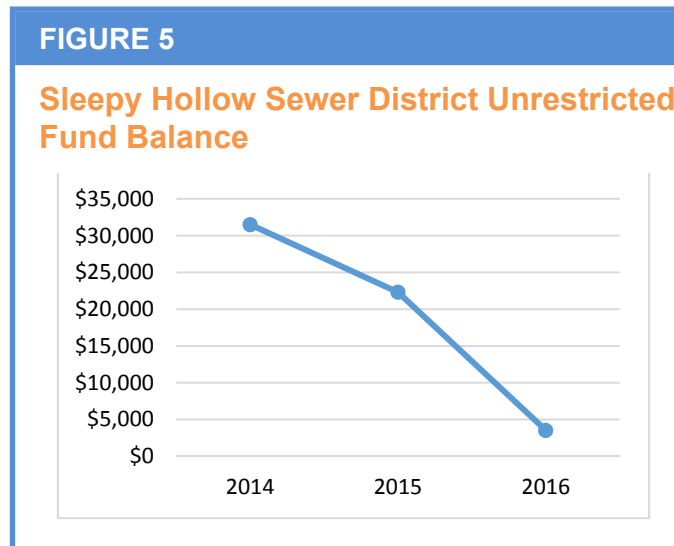
<sup>6</sup> Intergovernmental charges and rental of equipment account for personal services and equipment rental for plowing and mowing related to County roads, in addition to personal services for plowing for the Onondaga Water Board Authority.

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## Sleepy Hollow Sewer District Fund Balance Has Declined From Fiscal Years 2014 Through 2016

Sleepy Hollow Sewer District<sup>7</sup> (District) expenditures are funded primarily by real property taxes. From 2014 through 2016, unrestricted fund balance has decreased \$27,981 (89 percent), leaving the District vulnerable to cash flow concerns and fiscal stress (Figure 5).

- As of fiscal year end 2014, unrestricted fund balance was \$31,503 (115 percent of the ensuing year's \$27,500 appropriation).
- As of fiscal year end 2016, unrestricted fund balance was \$3,521 (9 percent of the ensuing year's \$39,900 appropriation).



The Board did not adopt realistic budgets for 2014 through 2016. It underestimated expenditures during this time and did not adjust budget estimates based on actual historical expenditures. For this period, actual expenditures exceeded appropriations by an annual average of \$11,206 (41 percent).<sup>8</sup> An annual inspection of the wastewater treatment facility by the State Department of Environmental Conservation resulted in the Town making necessary improvements and incurring additional expenditures in 2016 that contributed to the budget variance that year. Because expenditures exceeded budget estimates, the sewer district has incurred cumulative unplanned operating deficits totaling \$33,890 from 2014 through 2016 and unrestricted fund balance has been significantly depleted.

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7 The other sewer district at the Town is the Ontario Heights Sewer District.

8 Expenditures exceeded appropriations by \$11,810 (43 percent) in 2014, \$9,106 (33 percent) in 2015 and \$12,702 (45 percent) in 2016.

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We reviewed the 2017 budget and year-to-date operating results. The Board appropriated \$5,990 (63 percent) of total fund balance (\$9,511) to offset expenditures and balance the 2017 budget. The Supervisor told us he does not anticipate an unplanned operating deficit for 2017. However, we project an operating deficit ranging from \$4,746 to \$11,083,<sup>9</sup> which would result in unrestricted fund balance ranging from (\$4,612) to \$1,725<sup>10</sup> at the end of 2017. Although the Board increased real property taxes \$6,000 (22 percent) for 2017, it may not be enough to cover the projected expenditures. As a result, the Board may need to reduce the current level of expenditures, increase future real property taxes or find alternative revenue sources.

### **The Board Did Not Adequately Monitor the Budget**

The Board did not routinely receive budget-to-actual reports in 2015. During 2016, the Board began receiving monthly budget-to-actual reports for the general and highway funds, as well as periodically receiving budget-to-actual reports for the other funds. However, the Board did not monitor the 2015 or 2016 budget against actual operating results and allowed appropriation accounts to become overdrawn.

The Board passed blanket resolutions authorizing the Supervisor to make any necessary year-end budget modifications to correct overdrawn accounts prior to closing the accounting records. The resolutions did not specify the budget accounts to be amended or how the transfers should be financed. The bookkeeper told us she transferred funds from budget accounts with available appropriations and also appropriated fund balance to correct the overdrawn accounts. However, neither she nor the Supervisor provided the Board with a detailed listing showing the specific accounts that were modified. For 2016, the year-end budget modifications made under the blanket resolution totaled \$67,121.

The Board approved some budget modifications in a timely manner during the year. However, some appropriation accounts were overdrawn for several months before budget modifications were made at year end and other modifications were approved by the Board but never recorded. For example:

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9 See Appendix B for detail methodology

10 The Board appropriated \$3,040 of fund balance for the 2018 budget.

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- In 2015, four personal service accounts in the general and highway funds were overexpended an average of 166 days before the accounts were modified on December 31, 2015. These accounts were overdrawn by a total of \$21,902. In addition, accounts in the Sleepy Hollow and Ontario Heights Sewer Districts became overexpended in September and December 2015, respectively, but were never modified. These two accounts were overdrawn by a total of \$26,395.
  - In 2016, five accounts<sup>11</sup> from the general and highway funds were overexpended an average of 88 days before budget modifications were recorded. These accounts were overdrawn by \$84,593. In addition, a highway fund personal service account with a negative balance of \$41,742 was never modified at year end. The payment for the employee who retired from the highway department was paid from this account.
  - The Board approved budget modifications totaling \$85,772 during 2016 that were not recorded in the records. As a result, some interim budget-to-actual reports did not accurately reflect the Town's budget as modified by the Board. The Supervisor told us the modifications were not recorded due to a turnover in bookkeepers at the Town in 2016.

Timely detection of budget shortfalls allows for actions to be taken early to address the overspending. Waiting until year end reduces the number of options available. In addition, recognizing shortfalls sooner allows the Board the opportunity to determine whether the shortfall is an ongoing problem that could impact the succeeding year's budget or whether it is a temporary situation.

## **How Does Multiyear Planning Help Improve Budgeting?**

Multiyear financial planning enables officials to identify developing revenues and expenditure trends, assess capital needs, establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. Long-term financial plans work in conjunction with board-adopted policies and procedures (for example, fund balance policies) to provide necessary guidance to employees on the financial priorities and goals set by the Board. Any long-term financial plan should be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

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<sup>11</sup> One account was overdrawn twice.

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## **Town Officials Do Not Have Multiyear Financial and Capital Plans**

Town officials do not have multiyear financial and capital plans to address the use of fund balance and the Town's capital needs. At the June 2017 Board meeting, the Supervisor presented and the Board discussed long-term planning. The Board also reviewed a document which includes recommendations to formally adopt a multiyear plan. The recommendations also included moving away from the current practice of producing a budget for only one year at a time and examining only one year of historic financial results to develop the budget. The Supervisor told us they are currently working on a multiyear plan. In September 2017, the Board adopted a fund balance policy that outlines the Board's objective to maintain unrestricted fund balance of at least 15 percent of annual appropriations in each fund. This policy will help guide Town officials as they develop future budgets and work to develop a multiyear plan to restore and maintain fund balance at the desired level.

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

The Board should:

1. Develop and adopt budgets with realistic estimates of revenues and expenditures based on historical trends or other known factors.
2. Monitor the budget by reviewing budget-to-actual reports and ensure corrective actions or specific budget amendments are implemented before financial condition is negatively affected.
3. Ensure that interfund advances are made and repaid in accordance with statute, and only with prior Board approval.
4. Develop comprehensive multiyear financial and capital plans that project operating and capital needs and financing sources over a three- to five-year period. The Board should monitor and update these plans on an ongoing basis.

The Supervisor should:

5. Monitor appropriations to ensure no appropriation account is overdrawn at any time.
6. Ensure budget modifications are made timely throughout the year and that a detailed listing of proposed budget modifications is provided to the Board for its review and approval.

# Information Technology (IT)

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The Board is responsible for establishing policies and procedures for all aspects of the Town's IT system to address crucial security areas, such as acceptable use, data backup, disaster recovery and breach notification.

## **What IT Security Policies and Procedures Should the Board Adopt to Safeguard the Town's IT Resources?**

The Board should adopt backup policies and procedures. Sound business practices require that the Town's computer data be backed up (copied) on a daily basis so that it can be restored in the event of a loss. Backup files should be kept in a secure off-site location to avoid loss from an event that could damage the system. In addition, it is important that backup data files be routinely tested for validity.

The Board should also adopt policies and procedures for breach notification. NY State Technology Law requires towns to establish an information breach notification policy. This policy should detail how officials will notify individuals whose private information was, or is reasonably believed to have been, acquired by a person without valid authorization. It is important for the disclosure to be made in the most expedient time possible and without unreasonable delay, consistent with the legitimate needs of law enforcement or any measures necessary to determine the scope of the breach and restore the reasonable integrity of the data system.

The Board should also adopt a disaster recovery plan to describe how officials will resume business operations after a disruptive event. The event might be as large as a flood or something as small as a malfunctioning software application caused by a computer virus. This disaster recovery plan should include a significant focus on preventing a disruptive event, describe the precautions to be taken to minimize the effects of a disruptive event, and detail how employees will communicate, where they will go and how they will maintain or quickly resume critical functions. The Board should periodically review these policies and procedures and update them as needed to reflect changes in technology and the Town's computing environment.

## **The Board Did Not Adopt IT Security Policies and Procedures**

The Board did not adopt policies and procedures for data backup and breach notification and has not adopted a comprehensive disaster recovery plan.

The Town uses an online service provider to backup its financial data to a remote location. However, the server and other computer data is not backed up. Without comprehensive data backup procedures, Town officials cannot be sure that all critical Town data is being backed up or that the backups performed can be used to successfully restore critical systems or data in the event of loss. In addition,

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without a breach notification policy Town officials and employees may not understand or be prepared to fulfill their legal obligations to notify individuals if their private information is compromised. Lastly, there is an increased risk that the Town could lose important financial data and suffer serious interruption in operations without a disaster recovery plan.

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

The Board should:

7. Adopt written policies and procedures for data backup and breach notification and periodically review and update those policies and procedures as needed.
8. Adopt a formal disaster recovery plan and ensure it is distributed to all responsible parties, periodically tested and updated as needed.

# Appendix A: Response From Town Officials

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## TOWN OF OSWEGO

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Oswego, New York 13126  
Phone (315) 343-2424 Fax (315) 343-4414

Supervisor: Richard E. Kaulfuss

Town Board Members:

Greg Herrmann, Margaret Mahaney, Victoria Mullen, Richard Tesoriero

Attorney to the Board: Kevin C. Caraccioli

March 5, 2018

Ms. Rebecca Wilcox, Chief Examiner  
State Office Building, Room 409  
333 E Washington St  
Syracuse New York 13202-1428

Dear Ms. Wilcox,

The Town of Oswego acknowledges receipt of the draft Report of Examination 2017 M-290. The draft report has been shared with all Town Board members and a discussion of the report was held with the board members. (Please note, one member is out of the country and not able to attend that discussion).

The Town finds no issue with the accuracy of the information contained within the report nor was there an issue with the methodology of the audit process. The key findings and key recommendations of the report are acknowledged. Because the audit field staff maintained excellent communication with town officials, and kept staff aware of issues they encountered, the Town has already begun to implement the key recommendations and has instituted policies and procedures aimed at correcting its fiscal and IT issues and building a better and more secure foundation for the future.

The Town recognizes that one of the key benefits of municipal audits is the learning process involved for the municipality. This was certainly the case with the process of this audit. While the field audit seemed long and often stressful, the field staff from the NYS Comptroller's Office were extremely helpful, courteous, and informative. Town officials were given concrete examples of what policies and procedures needed improvement and took care to ensure the staff understood not only the recommendations, but the



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principals needed to improve fiscal management. Due to the guidance and expertise of the field staff, new official town policies were adopted. The 2018 budget process was made more open and responsive to historical trends and 2017 expenditures and revenues were more effectively monitored. Additionally, as a result of the advice given, the Town Board worked to become more actively involved by increasing Town Board workshops and meetings, providing better fiscal reporting and making reforms to the budget process.

One concrete example of changes made was that prior to the 2018 budget process, the Town adopted a formal Fund Balance Policy. Further, long term trends regarding revenues and expenditures were used instead of the traditional one-year budget plans. This process also helped with ongoing fiscal monitoring, The Report of Examination predicted a deficit for 2017 in both the General and Highway Funds, but measures implemented in 2017 helped produce a surplus in the General Fund; in the Highway fund we were able to deposit \$17,905 into a capital reserve fund for vehicle and equipment while still keeping the deficit to \$22.16. In fact, the Town produced an overall surplus across these funds for only the fourth time since 2006.

In 2017, the Labor agreement with the union representing Town employees expired. By working closely with the Teamster's Local 317 the Town has reached an agreement that, while continuing to protect the employees, will result in significant savings in legacy benefits over the coming years. Employee costs and benefits have been projected and stabilized for the next four years. Background information provided to document these costs are one more step towards developing formal long range multi-year plans for the Town.

One of the key recommendations was the development of a multi-year capital plan. In 2017 the Town Board adopted a Vehicle and Equipment Replacement Plan. One aspect of this plan was to retire older and obsolete equipment and use the proceeds to fund replacement equipment. The intent was to start the process for planning for future equipment needs. The fleet size of the Highway Department was reduced and the purchase of a new pickup truck was planned which would not involve new revenues. However, the proceeds were not sufficiently earmarked to the correct allocations. This has been corrected and a capital reserve fund established. Henceforth all proceeds from sale or disposal of equipment will be earmarked for use to replenish or renovate equipment insuring funds are

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used for the original intended purpose and further, the Town is currently working on long term multi-year capital planning. The Town has also recently installed a computer backup system and is working with IT professional to institute better security for our systems.

While the draft of the Report of Examination for the Town of Oswego was only recently received, the Town was fortunate that as a result of the preparation of the report, continued guidance to the Town was received regarding ways to implement the financial condition of information technology of the Town. The Town Board, staff, and elected officials have worked hard for the betterment of the Town. We look forward to a continued positive relationship with the NYS Comptroller's Office and towards the establishment of even more future corrective actions as we work to address the key findings of this report and to implement the key recommendations.

Sincerely,

Richard E Kaulfuss  
Town Supervisor,  
Town of Oswego

## 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 objectives and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials responsible for financial oversight and reviewed Board meeting minutes and policies to gain an understanding of the Town's fiscal policies and procedures, including the budget development and monitoring process.
- We interviewed Town officials to determine whether they have identified the cause of the Town's declining financial condition.
- We reviewed adopted budgets from 2014 through 2016 to determine whether they were structurally balanced.
- We compared budget estimates to actual results for 2014 through 2016 and reviewed the 2017 budget to determine whether total budgeted revenues and appropriations were reasonable. We assessed the budget-to-actual results for fiscal years 2015 and 2016 and identified accounts with budget variances that were over/underestimated by at least 5 percent and that were at least 10 percent of total revenues and appropriations in the general, highway and sewer district funds. We selected 10 percent of total fund appropriations to identify the significant appropriations that caused the budget variances. We interviewed Town officials to identify reasons for significant budget variances.
- We analyzed fund balance trends and results of operations in the general, highway and sewer districts funds. We compared the unrestricted fund balance with the next year's budget appropriations and identified factors that contributed to the decline or deficit.
- We projected 2017 health insurance expenditures in the general and highway funds and compared them with the Supervisor's projections.
- We projected 2017 operating results for the Sleepy Hollow Sewer District using historical trends and other pertinent information provided by Town officials.
- We determined whether interfund advances agreed between funds and were properly classified, recorded, reported and repaid where applicable.
- We reviewed budget modification and transfer procedures and determined whether budget modifications were authorized and timely in fiscal years 2016 and 2017.
- We interviewed Town officials to obtain an understanding of the Town's IT environment and internal controls, and inquired as to policies and procedures related to data backup, disaster recovery plan and breach notification.

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Our audit also examined the adequacy of certain information technology controls. Because of the sensitivity of some of this information, we did not discuss the results in this report, but instead communicated them confidentially to Town officials.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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

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