



# Town of Lewisboro Financial Condition and Activities

## Report of Examination

Period Covered:

January 1, 2009 — May 31, 2011

2011M-279



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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

April 2012

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Lewisboro, entitled Financial Condition and Activities. 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 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

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# EXECUTIVE SUMMARY

The Town of Lewisboro (Town) is located in Westchester County and encompasses approximately 29 square miles. The Town has a population of approximately 12,400. General fund expenditures totaled approximately \$8 and \$7 million for the 2009 and 2010 fiscal years, respectively. The general fund's budgeted expenditures for 2011 were approximately \$7.2 million.

The Town is governed by a Town Board (Board) which comprises four elected Board members and an elected Town Supervisor (Supervisor). The Board is responsible for the general management and control of the Town's finances. The Supervisor, who is a Board member, serves as the Town's chief executive officer and chief fiscal officer.

### **Scope and Objective**

The objective of our audit was to review the Town's financial condition and selected financial operations for the period January 1, 2009 to May 31, 2011. We extended our scope period to January 1, 2006 for fund balance trend analysis and to June 23, 2011 for inter-fund transfers review. Our audit addressed the following related questions:

- Did the Board adequately monitor the Town's financial condition and take appropriate actions to maintain the Town's financial stability?
- Did the Board adequately audit and oversee the Town's financial activities to ensure that financial transactions were accurate, complete, accounted for and reported in a timely manner?

### **Audit Results**

The Board and Town officials did not adequately monitor the Town's financial operations and take timely action to maintain the Town's financial stability. The Town's general fund balance declined from \$3,094,491 in 2006 to a deficit fund balance of \$655,312 in 2009. The deficit was reduced to \$338,100 in 2010. Similarly, the sewer fund balance dropped from \$46,780 in 2006 to a deficit of \$250,387 in 2010. The deficits were the result of poor budget estimates and the Board's inability to closely monitor actual revenues and expenditures throughout the year due to a lack of periodic financial reports. Further, the Highway Superintendent's compensation was incorrectly budgeted in the highway fund instead of the general fund. Had his salary been correctly reported in the general fund, the general fund's total deficit fund balance in 2010 would have been \$423,313.

The Board needs to improve its oversight of the Town's financial activities. The Board did not audit claims or ensure that inter-fund transfers were properly authorized, accurately recorded and repaid as required by General Municipal Law. Accounting records were not maintained in a timely manner and the Annual Update Document reports were consistently filed with the Office of the State Comptroller after the due date. We found that 35 claims totaling \$43,459 were insufficiently audited or not audited at all, and inter-fund payables were incorrectly recorded. Further, the Board did not report meal allowances to the Internal Revenue Service as compensation. We also found that the Board failed to ensure that meal allowances were sufficiently supported by certified time records. The Town paid \$6,384 in 2009 and \$5,866 in 2010 for meal allowances.

### **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 that they planned to take corrective action. Appendix B includes our comments on issues raised in the Town's response letter.

# Introduction

## Background

The Town of Lewisboro (Town) is located in Westchester County and encompasses approximately 29 square miles. The Town has a population of approximately 12,400. General fund expenditures totaled approximately \$8 and \$7 million for the 2009 and 2010 fiscal years. The general fund's budgeted expenditures for 2011 were approximately \$7.2 million.

The Town is governed by a Town Board (Board), which comprises four elected Board members and an elected Town Supervisor (Supervisor). The Board is responsible for the general management and control of the Town's finances. The Supervisor, who is a Board member, serves as the Town's chief executive officer and chief fiscal officer.

The Director of Finance is responsible for performing financial duties, including maintaining a record of all account balances, reconciling the accounting records to the bank statements, providing the Board with timely, accurate, and useful financial information, and providing annual reports to the Board and the Office of the State Comptroller.

## Objective

The objective of our audit was to examine the Town's financial condition and selected financial operations. Our audit addressed the following related questions:

- Did the Board adequately monitor the Town's financial operations and take appropriate actions to maintain the Town's financial stability?
- Did the Board adequately audit and oversee the Town's financial activities to ensure that financial transactions were accurate, complete, and accounted for and reported in a timely manner?

## Scope and Methodology

We examined the Town's processes for financial transactions, operations and financial stability for the period January 1, 2009 to May 31, 2011. We extended our scope period to January 1, 2006 for fund balance trend analysis and to June 23, 2011 for inter-fund transfers review.

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.

**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 that they planned to take corrective action. Appendix B includes our comments on 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 the 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.

## Financial Condition

The Board is responsible for ensuring that services are delivered within the limits provided in the budget. The Board also should closely monitor revenues and expenditures throughout the year, and identify any variances that might cause the Town to end the year with a significant surplus or deficit. The timely detection of projected budget shortfalls allows timely action to be taken. To that end, the Board must adequately monitor the Town’s financial operations and ensure that appropriate actions are taken to maintain the Town’s financial stability. The budget is a key instrument in the Town’s day-to-day operations; it is essential that it is properly constructed. A significant error contained within the budget could have severe consequences. For example, overestimating revenues and/or underestimating expenditures could result in shortfalls that threaten the delivery of essential services.

A key measure of financial condition is the level of fund balance. Fund balance is the difference between revenues and expenditures accumulated over time. Fund balance can be used to manage unexpected occurrences such as unanticipated shortfalls in revenues. Inadequate fund balance limits the ability of local government officials to manage emergencies and other unanticipated occurrences.

The Board and Town officials did not adequately monitor the Town’s financial operations and take timely action to maintain the Town’s financial stability. As a result, the Town’s general fund balance declined from \$3,094,491 in 2006 to two consecutive years of deficit fund balances totaling \$655,312 in 2009 and \$338,100 in 2010, as illustrated in Table 1. Similarly, the sewer fund showed a continual decline in fund balance from 2006 to 2009, and a deficit fund balance in 2010. While the highway fund maintained a positive fund balance from 2006 to 2010, fund balance declined substantially from \$743,876 in 2006 to \$36,921 in 2010.

| <b>Table 1: Fund Balance</b> |             |             |             |             |             |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
|                              | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> |
| General Fund<br>(Deficit)    | \$3,094,491 | \$2,245,037 | \$793,573   | (\$655,312) | (\$338,100) |
| Highway Fund<br>(Deficit)    | \$743,876   | \$332,987   | \$249,276   | \$6,306     | \$36,921    |
| Sewer Fund<br>(Deficit)      | \$46,780    | \$31,884    | \$1,120     | (\$401,853) | (\$250,387) |

The steady decline in fund balance and eventual deficits mainly resulted from poor budget estimates. Further, the Board failed to properly oversee and monitor the Town’s financial resources because it did not require the Director of Finance to provide it with periodic financial reports during the year. For example, the Board did not have the necessary information to make budget modifications when needed. The current Director of Finance stated that he did not provide financial reports to the Board because the Board only requested reports at budget time. The lack of periodic financial reports diminishes the Board’s ability to monitor and manage the Town’s financial resources properly, and contributed to the Town’s declining financial condition.

The Town’s financial condition was the most unstable in the 2009 fiscal year. As indicated in Table 2, total revenues for three of the seven funds in the 2009 budget were overestimated by \$1.5 million, or approximately 14 percent of the total budget. The general fund accounted for the majority of the overestimates (almost \$1.3 million). Town officials could have budgeted more accurately if they had used historical information – such as prior years’ results of operations – when preparing budget estimates. For example, Town officials budgeted \$300,000 for interest and earnings in the 2009 budget even though the Town only received \$141,755 in such revenues in the 2008 fiscal year. Absent specific actions that would increase revenue, estimating revenues of more than double the amount received in the prior year is unrealistic. In fact, the Town realized only \$95,786 for this revenue in 2009, three times less than the budgeted amount.

| <b>Fund</b>  | <b>Actual Revenues</b> | <b>Modified Budget</b> | <b>Difference</b>    |
|--------------|------------------------|------------------------|----------------------|
| General Fund | \$6,085,597            | \$7,346,493            | (\$1,260,896)        |
| Highway Fund | \$2,946,310            | \$3,074,167            | (\$127,857)          |
| Sewer Fund   | \$538,161              | \$687,765              | (\$149,604)          |
| <b>Total</b> | <b>\$9,570,068</b>     | <b>\$11,108,425</b>    | <b>(\$1,538,357)</b> |

Furthermore, as shown in Table 3, in 2009, modified budget estimates of expenditures in three of the seven funds also were underestimated, resulting in the general, highway and sewer funds over expending the modified budget by \$411,273, \$124,914 and \$138,371, respectively, or approximately \$675,000 in total. For example, Town officials appropriated \$130,478 for legal expenditures in the 2009 budget. However, the Town had actual legal expenditures totaling \$210,584 in the 2008 fiscal year and expended a similar amount, \$219,311, in 2009, exceeding the budget by almost 170 percent. Had Town officials based these estimates on the prior year’s results and periodically

monitored budget to actual results, expenditures would have been more accurate and within budget.

| <b>Fund</b>  | <b>Actual Expenditures</b> | <b>Modified Budget</b> | <b>Difference</b>  |
|--------------|----------------------------|------------------------|--------------------|
| General Fund | \$7,968,755                | \$7,557,482            | (\$411,273)        |
| Highway Fund | \$3,233,081                | \$3,108,167            | (\$124,914)        |
| Sewer Fund   | \$826,136                  | \$687,765              | (\$138,371)        |
| <b>Total</b> | <b>\$12,027,972</b>        | <b>\$11,353,414</b>    | <b>(\$674,558)</b> |

Budgeting practices improved in 2010. The Town more accurately estimated revenues and expenditures, which in 2010 resulted in operating surpluses of \$400,937 in the general fund and \$374,522 in the sewer fund. The highway fund also decreased its operating deficit from \$611,280 to \$102,235.

Poor budgeting practices create fiscal stress, which makes it difficult to balance the budget. Further, during times of fiscal stress the Town has limited resources to finance needs, which results in service levels declining. Had the Board monitored the Town’s financial operations throughout the year, it could have detected the continuing budget shortfalls and addressed them before the Town incurred deficit fund balances.

Capital Projects Fund – The capital projects fund accounts for financial resources to be used for the acquisition or construction of capital facilities. The Board must ensure that all financial records related to this fund are accurate and complete so that it can make informed financial decisions.

In addition to the Board’s poor budgeting practices for the three funds discussed above, it failed to require that the Director of Finance maintain accurate records for the capital projects fund. As a result, it could not rely on the financial information that was reported in this fund. For example, revenues for the capital projects fund were not included in the original budget for 2009, and the modified budget, which included capital projects fund revenues, was also inaccurate. The accounting system duplicated prior year modified budget amounts in the capital projects fund, which created inaccurate budget balances in that fund. Budgeted revenues were overstated by \$8 million due to the accounting system’s duplication, and we found inconsistencies, such as negative receipts<sup>1</sup> of \$200,000 for sewer

<sup>1</sup> Negative receipts (or revenues) are postings/entries that reduce total receipts. Generally, they should not occur and should result in recharacterization as expenditures.

improvements. The former Director of Finance failed to monitor and correct these deficiencies, and the Board did not require that she did so. This inaccurate information may have inhibited the Board's ability to make informed financial decisions.

Highway Superintendent's Salary – Town Law<sup>2</sup> provides that a town's Superintendent of Highways' (Superintendent) salary should be charged to the general fund. However, during our audit, we found that the Highway Superintendent's compensation was incorrectly budgeted in the highway fund instead of the general fund.

The Superintendent told us that the excess funds in the highway fund prompted the Board to move the Superintendent's salary from the general fund budget to the highway fund budget. The Town's legal counsel also advised the Town that no statute directed that the Superintendent's salary be paid from a particular fund and that it was proper for the Town to pay his salary from the general fund. As a result, the highway and general funds were incorrectly budgeted, and available highway funds were improperly used to pay the Superintendent's salary, which reduced cash resources available to fund highway expenditures. Had the Town appropriately budgeted the Superintendent's salary in the general fund, we estimate that the general fund's total deficit fund balance would have increased to \$423,313 in 2010.

## Recommendations

1. The Board should require that the Director of Finance maintain complete and accurate financial records.
2. The Board should request periodic status reports to monitor the budget so that corrective action can be discussed and implemented in a timely manner.
3. When necessary, the Board should modify the budget in a timely manner to avoid budget shortfalls.
4. The Highway Superintendent's compensation should be budgeted and charged to the general fund.

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<sup>2</sup> Town Law Article 8 Section 116: the Town Board determines the amount of compensation of a Town Superintendent of Highways, which is a charge against the general town budget and not the highway fund.

## Financial Activities

The Board has the overall responsibility for the management of Town finances and to oversee and audit the activities of officers and employees who account for Town funds. The Board must ensure that Town officials maintain accurate and complete accounting records to maintain accountability over financial resources.

The Board needs to improve its oversight of the Town's financial activities. We found that the Board did not audit claims against the Town, or ensure that interfund transfers were properly authorized, accurately recorded and repaid as required by General Municipal Law (GML). Accounting records were not maintained in a timely manner, and the Annual Update Document reports were consistently filed after the due date. We also found that meal allowances were not sufficiently supported by certified time records and were not reported as compensation. As a result, Town officials cannot assure taxpayers that they expended public funds in the most cost-effective manner.

### Audit of Claims

The Board is responsible for the audit of claims unless it establishes a Town Comptroller position. An effective claims processing system ensures that every claim against the Town is subjected to an independent, thorough and deliberate review and contains enough supporting documentation to determine whether it complies with statutory requirements and Town policies, and that the amounts claimed represent actual and necessary Town expenses. In addition, it is important for the Board to determine whether the claims are properly itemized and supported, and whether the Town has actually received the goods and/or services described in each claim by reviewing detailed receipts.

The Board did not audit the claims against the Town. Instead, the Board inappropriately delegated the claims auditing function to the Town Clerk more than 20 years ago. We examined four abstracts, two for January 2010 and two for May 2011,<sup>3</sup> which included 387 claims totaling \$440,682, to determine if claims were properly audited and approved by the Board prior to payment and contained appropriate supporting documentation to determine that they were proper Town expenditures. We found 35 claims totaling \$43,459 that either were insufficiently audited or not audited at all. Specifically:

<sup>3</sup> We judgmentally selected the first and last month of the audit period to review claims paid after the close of the year when there was no Director of Finance and claims that were paid in the most current period under the new Director of Finance.

- Fifteen claims totaling \$34,264 for legal and engineering services were audited by the Town Clerk, but the Town Clerk did not verify payment rates against a contract or resolution.
- Sixteen claims totaling \$1,260 were payments for meal allowances that did not have attached supporting documentation.
- Four claims totaling \$7,935 were not reviewed or audited by the Town Clerk. The unaudited claims included payments of \$6,250 for legal services, \$915 for a monthly copier maintenance fee, \$570 for a portable restroom rental, and a \$200 camp trip deposit. The Town Clerk stated that these claims were not presented to her for audit.

Although the claims tested were not audited by the Board and, in some cases, were insufficiently documented, we did not find any incorrect payments. The Board was unaware that the audit of claims in a town cannot be assigned to the Town Clerk and believed it fulfilled its duty by reviewing and approving the claims abstracts. Without proper audit of claims, the Board cannot be assured that payments will only be authorized for goods and services actually received that are of acceptable quality and for a lawful Town purpose.

### **Inaccurate Records**

GML allows municipalities to temporarily advance moneys held in any fund to any other fund, with limited exceptions. However, suitable records should be maintained and each advance should be authorized by the Board. Repayment must be made as soon as moneys are available, but no later than the close of the fiscal year in which the advance was made.

The Director of Finance is responsible for maintaining the Town's financial records, including suitable schedules of all interfund transfers. The Board has the ultimate responsibility to ensure that the Director of Finance is fulfilling his/her responsibilities, and that interfund transfers are properly authorized, accurately recorded, and repaid.

We found 826 entries that were posted to the due to and due from accounts for all funds totaling almost \$32 million from January 1, 2010 to June 23, 2011. During the period, account balances increased significantly, and interfund payables were not repaid by year end and continued to increase. For example, during this period, the general fund due from other funds account increased by approximately \$10 million, or from \$310,000 to \$10,159,508, and the due to other funds account increased by more than \$11 million, or from \$279,000 to \$11,474,264. However, these amounts were incorrect. The former

Director of Finance incorrectly posted interfund repayments and did not maintain a schedule or other record of the advances and payments – other than general ledger entries – to support, verify, and monitor account balances. The absence of records made it difficult to determine the true and actual amounts of interfund transfers that the Town’s funds had made.

The Board and the Director of Finance were not aware of GML’s requirements regarding interfund transfers and repayments. Further, because the Director of Finance did not maintain adequate records, there is no assurance that the amounts due between funds are accurate and repaid in a timely manner.

### **Untimely Filing**

Towns and villages with populations between 5,000 and 19,999 according to the 2010 federal census have up to 90 days after the close of their fiscal year to file their Annual Update Document (AUD) with the Office of the State Comptroller (OSC). An additional 30-day filing extension may be granted by OSC if a written request is received from the chief fiscal officer before the original 90-day filing period expires. The Town has an AUD filing due date of April 1.

From 2005 to 2010, Town officials filed the Town’s AUDs after the April 1 due date. The 2009 AUD was filed on July 15, 2011, 15 months late. The Director of Finance provided us with a printout that showed that the AUD was originally filed on May 6, 2010, but later discovered during the audit process that the AUD was not successfully submitted. The Town’s 2010 AUD was filed on July 28, 2011, three months late.

The Director of Finance position experienced extreme turnover; the Board appointed a new Director of Finance six times since January 2006. Further, this position was vacant for three months, from December 31, 2009 to March 31, 2010. As a result, there was a lack of continuity in the preparation of accounting records and reports, and accounting records were not maintained in a timely manner. Untimely filing is indicative of poor recordkeeping and hinders the Board’s ability to effectively make timely financial decisions. For example, during budget preparation, it is important to use realistic estimates based on the most current and accurate information available. Being that the Town has had deficit fund balances since the 2009 fiscal year, it is extremely important for the Board to have up-to-date financial information to address these deficits.

### **Unreported Compensation**

Highway employee meal allowances (meal tickets) that are union contracted benefits should be included in the employee’s W-2<sup>4</sup> and be

<sup>4</sup> A W-2 is an annual statement used for income tax purposes that shows gross earnings and deductions. It is sent to an employee, the Internal Revenue Service and other tax jurisdictions it covers.

fully taxed as employee compensation. Supporting documentation, such as time records, is essential to ensure payment is for only authorized services actually performed and that employees do not receive payments for which they are not entitled. Time records should be certified by the direct supervisor attesting that the hours worked are accurate and justified.

We found that the Board approved \$14 meal tickets as a benefit for working overtime to highway employees in their union contract, but failed to ensure that the Town reported these payments to the Internal Revenue Service (IRS) as employee compensation. The Town paid \$5,866 in 2010 and \$6,384 in 2009 for meal allowances. The Board and Town officials were unaware that the IRS considers meal tickets taxable fringe benefits. As a result, the related taxes on these meal tickets were not withheld or paid as required.

During our examination of claims, we found 16 payments totaling \$1,260 that were not properly authorized or sufficiently supported by certified time records. Because the Board did not audit the claims, it was not aware that the Highway Supervisor did not certify meal tickets. Further, there was no evidence that vouchers were verified to overtime records. As a result, the Town cannot be assured that employees are only paid for benefits for which they are entitled.

## **Recommendations**

5. The Board should audit all claims and not assign this responsibility unless it establishes a Town Comptroller position.
6. The Board must ensure that interfund transfers are properly authorized, accurately recorded and repaid in a timely manner.
7. The Director of Finance must keep suitable records or schedules of all interfund transfers.
8. The Board should ensure that the Town's AUD is filed in a timely manner and in accordance with statutory requirements.
9. The Board should ensure that taxable employee benefits are properly supported and included in all payroll reports.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



Peter H. Parsons  
Supervisor

TOWN OF LEWISBORO  
11 Main Street  
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South Salem, New York 10590

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Fax (914) 763-6496  
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March 13, 2012

Christopher J. Ellis  
Chief Examiner of Local Government & School Accountability  
Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

RE: Response to Draft Financial Condition  
and Activities Report of Examination

Dear Mr. Ellis:

Enclosed is our response to the preliminary draft findings that are noted in the above captioned report which includes a Corrective Action Plan. The contents of the response have been agreed to by the Town Board.

If there are any questions regarding the submitted information, please do not hesitate to contact me at (914) 763-3151.

Yours sincerely,

Peter H. Parsons  
Town Supervisor

cc: Town Board Members  
Leo Masterson – Director of Finance

**RESPONSE TO NYS COMPTROLLER’S PRELIMINARY DRAFT FINDINGS FOR THE TOWN OF LEWISBORO FINANCIAL CONDITION AND ACTIVITIES FOR THE PERIOD JANUARY 1, 2009 – MAY 31, 2011**

**Overall Financial Condition of the Town**

Your report says that the decline in the Town’s fund balance during the period from 2006 to 2010 was due to inadequate monitoring of the Town’s financial operations and failure to take action to maintain the Town’s financial stability.

**This is misleading.** In none of the years 2006, 2007 or 2008 did the fund balance drop below 10% of Town expenditures. This is critical because conversations with officials from the Office of the State Comptroller at two recent conferences have suggested that an optimum level for a town’s fund balance is between 10% and 15% of town expenditures and that any larger figure might be considered to place an undue burden on the taxpayer. In addition the previous audit by your office made clear that you considered the Lewisboro fund balance excessive. In net, while budget procedures during these three years may not always have met your standards, there was never any reason to doubt Lewisboro’s financial stability.

See  
Note 1  
Page 19

**The real issue is 2009 when the combined fund balances of the Highway, Sewer and General Funds showed a net deficit at year’s end of \$1,051M which almost exactly matches the difference between budgeted and actual Sales Tax and Mortgage Transfer Tax receipts.** Nor can this decline be simply laid at the door of poor budget estimates since the budgeted figures were almost exactly in line with the average for the previous three years.

See  
Note 2  
Page 19

| <u>\$M</u>   | <u>2009 Actual</u> | <u>Difference vs. 2009 Budget</u> | <u>Difference vs. Average Actual 2006-2008</u> |
|--------------|--------------------|-----------------------------------|--|
| Sales Tax    | 1,509              | (341)                             | (246)  |
| Mortgage     |                    |                                   |  |
| Transfer Tax | 472                | (727)                             | (818)  |
| <b>TOTAL</b> | <b>1,981</b>       | <b>(1,068)</b>                    | <b>(1,064)</b>                                 |

To protest that the Board should have predicted these declines during the 2009 Budget Preparation season is ingenuous in the extreme since at that time most people believed that the financial crisis was just that and not as it turned out to be – a depression style down turn in the economy and a real estate catastrophe.

**2010 and 2011 were years in which the Town Board took action to restore the Town’s financial condition and was successful, according to our best current estimate, in creating a small positive fund balance.** Specifically during 2010 and 2011 real estate taxes were raised by 18% and while Town Expenditures were reduced in these same years by 12%. This is very different from your report’s muted tip of the hat to 2010 improvements and omission of any comment on the continuation of the positive trend into 2011.

See  
Note 3  
Page 19

## Specific Recommendations

1. **The Board should require the Director of Finance to maintain complete and accurate financial records.** The stated concern was for records of capital projects. Steps have been taken by the current Finance Director so that, for example, the funds from a \$312.5M BAN for watershed projects are now appropriately segregated.
2. **The Board should request periodic status reports to monitor the budget so that corrective action can be discussed and implemented in a timely manner.** Beginning in January 2012 the Board has been provided with monthly reports reflecting the overall budget status with additional detail in any area where a problem seems to be emerging. In addition at the end of each quarter there will be a more detailed report by department.
3. **When necessary, the Board should modify the budget in a timely manner to avoid budget shortfalls.** This will be done whenever periodic reports suggest it is necessary.
4. **The Highway Superintendent's compensation should be budgeted and charged to the general fund.** The Town's legal counsel advised that the Board could decide whether to include this budget item in the highway or the general fund. Regardless of the fund that houses this budget item there would be zero effect on each fund's balance or the overall Town tax. That said, beginning with the 2013 budget the Town will comply with your wishes and return this item to the general fund.
5. **The Board should audit all claims and not assign this responsibility unless it establishes a Town Comptroller position.** The Board has decided to create a Comptroller position and has begun obtaining the necessary civil service approval.
6. **The Board must ensure that interfund transfers are properly authorized, accurately recorded and repaid in a timely manner.** A process will be implemented.
7. **The Director of Finance must keep suitable records or schedules of all interfund transfers.** This will be implemented.
8. **The Board should ensure that the Town's AUD is filed in a timely manner and in accordance with statutory requirements.** The Board has normally waited to file its AUD until the annual audit of the Town's books is complete so as to minimize errors. In future we will submit the AUD in a timely manner based on unaudited books.
9. **The Board should ensure that taxable employee benefits are properly supported and included in all payroll reports.** This was done effective January 1, 2012.

## APPENDIX B

### OSC COMMENTS ON THE TOWN'S RESPONSE

#### Note 1

Our previous audit report (2002M-91) concluded that the general unreserved, unappropriated fund balance was excessive – 223 percent of the 2001 tax levy – because Town officials underestimated revenues and overestimated appropriations in past years' budgets. Therefore, we recommended that the Board review its budgeting practices and adopt more realistic budgets to ensure that it did not carry excessive fund balance. The Town's activities back then resulted in reasonable fund balances, as the general fund balance for 2006 through 2008 was between 10 and 15 percent of total expenditures. However, as our analysis in the report showed, fund balance subsequently decreased steadily to a deficit in 2009 and 2010. Had the Board received periodic financial reports from prior Directors of Finance and adequately monitored the Town's financial operations, it would have been able to take appropriate action sooner to address the declining fund balance.

#### Note 2

While we recognize the challenges caused by the economic downturn, poor budget estimates have contributed significantly to the Town's declining fiscal situation. For example, as stated in the report, although the Town only received \$141,755 in interest and earnings in fiscal year 2008, Town officials estimated \$300,000 for such revenues in the 2009 budget. Estimating an amount more than double than what was received in the previous year is unrealistic.

#### Note 3

Our audit covered the period up to May 31, 2011; therefore, we did not comment on actions taken by the Town beyond that. However, we commend the Board and Town officials for any actions they have taken recently to improve the Town's financial condition.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine whether the Board adequately monitored the Town's financial operations and provided proper oversight over accounting and reporting of financial transactions. To accomplish our objective, we interviewed appropriate Town officials and employees, tested selected records and examined pertinent documents for the period January 1, 2009 to May 31, 2011. Our testing included the following steps:

- We analyzed 2009 and 2010 Expenditure and Revenue Control Reports to determine operating deficits and surpluses for each fund.
- We reviewed and compared cash account balances as reported in the Annual Update Document for 2009 and 2010.
- We compared budget to actual revenue and expenditures and found differences for the two years ended December 31, 2010.
- We analyzed the cash liquidity (fund balance) for the period 2006 through 2010 as an indicator of fiscal stress.
- We reviewed the minutes of the Board meetings from January 1, 2009 through December 31, 2010 to determine if the Board approved budget modifications.
- We interviewed the Supervisor, a Board member and the Director of Finance to obtain an understanding of the budget development and monitoring process.
- We reviewed due to and due from accounts for 2010 and six months of 2011 for reasonableness.
- We interviewed the Town Clerk as to the claims audit procedures.
- We reviewed abstracts and vouchers for the months of January 2010 and May 2011 to verify that claims were properly audited and approved.
- We requested a list of the Town's AUD filing dates from 2006 through 2010 from our Data Management Unit to determine the dates that the AUD were filed.
- We interviewed the Highway Superintendent to obtain an understanding of the highway operations, budgets, and meal tickets.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX D

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