



# Town of Argyle

## Town Clerk and Budgeting

### Report of Examination

Period Covered:

January 1, 2010 — June 30, 2012

2012M-231



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

March 2013

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 Town of Argyle, entitled Town Clerk and Budgeting. 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 Argyle (Town) is located in Washington County and includes the Village of Argyle. According to the 2010 census, the Town has a population of 3,782 residents. The Town Board (Board), which comprises five elected members – the Town Supervisor (Supervisor) and four Board members – governs the Town. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor is the chief executive officer and chief fiscal officer of the Town and is responsible for virtually all of the Town's financial duties. The Town employs a bookkeeper to handle the Town's day to day financial operations and help the Supervisor maintain the accounting records.

The Town provides a variety of services to its residents, including street maintenance and improvements, snow removal, Justice Court, and fire protection. The Town accounts for most of its financial activity in the town-wide general and highway funds and the part-town highway fund. In 2011, the Town had operating expenses of approximately \$1.63 million and the Town's 2012 adopted budget contained total appropriations of approximately \$1.62 million. The Town derives its revenues mainly from real property tax, sales tax and State aid.

An elected Town Clerk (Clerk) serves as clerk to the Board, and is responsible for issuing State conservation, dog, and marriage licenses and collecting various fees including birth and death certificates and transfer station stickers. The Board also has appointed the Clerk to serve as the Town's tax collector. The current Clerk was elected and appointed as the tax collector in January 2012, after the previous Clerk did not seek re-election.

#### **Scope and Objective**

The objective of our audit was to review internal controls over the Clerk's office and the Town's budgeting practices for the period January 1, 2010 to June 30, 2012. We expanded our scope period through January 1, 2009 for our review of the Clerk's credit card use. Our audit addressed the following related questions:

- Are internal controls over the Clerk's office appropriately designed and operating effectively?
- Does the Board adopt reasonable, structurally balanced budgets, routinely monitor financial operations and take actions to maintain the Town's financial stability?

## **Audit Results**

The previous Clerk<sup>1</sup> used the Town credit card to purchase items that were not for Town business totaling \$8,347. The previous Clerk did not deposit fees and real property taxes in a timely manner; she held receipts up to 28 days prior to depositing them. Further, the previous Clerk did not remit fees that she collected to the Town Supervisor or other agencies in a timely manner. She delayed remitting these fees by as much as 208 days. Additionally, the Town could not provide us with the Clerk's 2010 records.<sup>2</sup> Without the 2010 records, we could not adequately determine if all collections were accounted for, deposited, and remitted to the appropriate parties. As a result, there is an increased risk that funds could have been lost, stolen or used for inappropriate purposes.

Additionally, we found that, from fiscal years 2007<sup>3</sup> through 2012, Town officials have incorrectly budgeted and accounted for sales tax revenues totaling \$296,353 in the town-wide funds when they should have accounted for them in the town-outside-village funds and used them to reduce real property taxes levied. As a result, Town taxpayers located outside of the Village of Argyle did not receive the full benefit of sales taxes to which they were entitled.

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

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<sup>1</sup> The previous Clerk's term expired December 31, 2011, when she elected not to run for office.

<sup>2</sup> We contacted the previous Clerk regarding the location of the 2010 Clerk records, and she advised us that she left all the records at the Town Hall when she left office at the end of December 2011.

<sup>3</sup> For historical purposes, we expanded our scope back to 2007 when the Town of Argyle began receiving sales tax revenues from the County.

# Introduction

## Background

The Town of Argyle (Town) is located in Washington County and includes the Village of Argyle. According to the 2010 census, the Town has a population of 3,782 residents. The Town Board (Board), which comprises five elected members – the Town Supervisor (Supervisor) and four Board members – governs the Town. The Board is responsible for the general management and control of the Town’s financial affairs. The Supervisor is the chief executive officer and chief fiscal officer of the Town and is responsible for virtually all of the Town’s financial duties. These duties include monitoring the budget, receiving and disbursing Town moneys, keeping records of cash receipts and disbursements, and preparing various financial reports. The Town employs a bookkeeper to handle the Town’s day to day financial operations and help the Supervisor maintain the accounting records.

The Town provides a variety of services to its residents, including street maintenance and improvements, snow removal, Justice Court, and fire protection. The Town accounts for most of its financial activity in the town-wide general and highway funds and the part-town highway fund. In 2011, the Town had operating expenses of approximately \$1.63 million and the Town’s adopted 2012 budget contained total appropriations of approximately \$1.62 million. The Town derives its revenues mainly from real property tax, sales tax and State aid.

The elected Town Clerk (Clerk) is responsible for issuing State conservation, dog, and marriage licenses and collecting various fees including birth and death certificates and transfer station stickers. The Board has also appointed the Clerk to serve as the Town’s tax collector, giving her the responsibility to collect real property taxes. The current Clerk was elected and appointed as tax collector in January 2012, after the previous Clerk did not seek re-election.<sup>4</sup> At the onset of our audit, Town officials expressed concerns about the previous Clerk’s use of a Town credit card, and her lack of timeliness for depositing her receipts and remitting funds to the Supervisor and other agencies.

## Objective

The objective of our audit was to review internal controls over the Clerk’s office and the Town’s budgeting practices. Our audit addressed the following related questions:

<sup>4</sup> The previous Town Clerk did not seek re-election after almost 10 years of being in office. Her term ended December 31, 2011.

- Are internal controls over the Clerk’s office appropriately designed and operating effectively?
- Does the Board adopt reasonable, structurally balanced budgets, routinely monitor financial operations and take actions to maintain the Town’s financial stability?

**Scope and Methodology**

We interviewed Town officials, examined internal controls over the Clerk’s office and reviewed the Town’s budgeting practices for the period January 1, 2010 to June 30, 2012. We expanded our scope period through January 1, 2009 for our review of the Clerk’s credit card use. 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 B 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. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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 Clerk’s office.

## Town Clerk

A well-designed system of internal controls is necessary to ensure that cash received by the Clerk is safeguarded, and that the Clerk's financial activity is properly recorded and reported. The Clerk is responsible for receiving, recording, depositing, disbursing, and reporting all moneys collected in an accurate and timely manner. This requires maintaining complete and accurate accounting records, ensuring that moneys received are promptly deposited into the Clerk's bank accounts and timely disbursing those moneys to the appropriate parties. The Board is responsible for ensuring that all claims included on the Town's credit card statements are audited to verify that costs paid by the Town are supported by adequate documentation and purchases are for proper Town expenses. A comprehensive credit card policy can provide a framework for an effective internal control system over the use of credit cards.

We found that the previous Clerk used the Town's credit card to charge personal items totaling \$8,347, did not deposit fees and real property taxes in a timely manner, and did not remit funds to the Supervisor and other agencies in a timely manner. Additionally, the Town could not provide us with the Clerk's 2010<sup>5</sup> records. Without the 2010 records, we could not adequately determine if all collections were accounted for, deposited, and remitted to the appropriate parties. Because of these weaknesses, Town funds could have been lost or misappropriated.

### Credit Card

The Board should have procedures in place to review and approve all claims prior to payment, including those claims involving the payment of credit card bills. Furthermore, the Board should adopt a credit card policy that covers which employees are authorized to use credit cards, covers when and how they can use the cards, and specifies the required documentation to support purchases made. The Town's credit cards should be used only for Town business purposes and not for personal use. It also is important that the Board set the necessary and appropriate credit limit for Town credit cards; having a credit limit that is higher than necessary increases the risk that moneys could be spent for inappropriate purposes.

The Clerk has her own Town credit card account with a \$10,000 credit limit. Town officials advised us that they became concerned when the Board did not receive credit card statements for several months

<sup>5</sup> We contacted the previous Clerk regarding the location of the 2010 Clerk records, and she advised us that she left all the records at the Town Hall when she left office at the end of December 2011.

from the previous Clerk. The Town Supervisor requested copies of statements from the credit card company prior to our examination and found improper charges. We reviewed all credit card purchases and corresponding charges from January 1, 2009<sup>6</sup> through December 2012 and found that the previous Clerk made four separate purchases totaling \$8,347 that were not for Town business and accumulated late fees and finance charges totaling \$2,013, as detailed in Table 1.

<b>Table 1: Inappropriate Credit Card Charges</b>		
<b>Date of Charge</b>	<b>Vendor</b>	<b>Amount</b>
November 7, 2009	Curtis Lumber	\$1,578
September 28, 2010	Classic Products	\$2,272
October 4, 2010	Four Star Flooring	\$2,963
January 5, 2011	ERIE Insurance	\$1,534
	<b>Total Charges</b>	<b>\$8,347</b>
	Total Late Fees	\$742
	Total Finance Charges	\$1,271
	<b>Total Inappropriate Charges and Fees</b>	<b>\$10,360</b>

As of November 2011, there was a balance of \$7,434 of unpaid charges on the Clerk's credit card account. Subsequent to the Supervisor's inquiries, the previous Clerk made a \$2,500 payment on November 11, 2011 and a final payment of \$5,011<sup>7</sup> on December 28, 2011 to pay the card off in full. The previous Clerk also sent a letter to the Town Supervisor, dated December 30, 2011, admitting to improperly using the Town's credit card to pay off her debt.

We reviewed the credit card statements and found that the previous Clerk was using her personal funds to make payments for her personal charges on the Town's credit card account. We determined that the Town did not pay for any of the unauthorized purchases, late fees or finance charges incurred. However, the previous Clerk used the Town credit card for personal purchases, did not make payments on time, and often did not pay the entire amount, incurring over \$700 in late payment fees.

Town officials did not initially detect the former Clerk's inappropriate use of the Town's credit card because the Board did not adopt comprehensive written guidance regarding credit card usage and conduct a proper claims audit of credit card payments. Subsequent to these events, the Board adopted a comprehensive credit card policy. The bookkeeper now receives all credit card statements, reviews

<sup>6</sup>The Town's credit card company could only provide Town officials with statements as far back as January 1, 2009.

<sup>7</sup>There was a late payment of \$39 and a finance charge of \$49 applied in December 2011.

the purchases against the itemized receipts for appropriateness, and submits them to the Board for approval prior to payment.

We also reviewed the 14 credit card charges<sup>8</sup> totaling \$3,224 made by the current Clerk from January 20 through June 13, 2012 and found that the credit card statements and itemized receipts were attached to the voucher, and that the charges were for proper Town purposes and were approved by the Board prior to payment. However, the average monthly credit card balance was only \$645. Therefore, the \$10,000 limit on the Clerk's credit card account appears excessive. Having an excessive credit limit increases the risk that purchases could be made for non-Town purposes.

## Cash Receipts

A well-designed system of internal controls is necessary to ensure that cash received by the Clerk is safeguarded and that the Clerk's financial activity is properly recorded and reported. The Board and Clerk should ensure that internal controls are in place and working effectively, especially when there is limited segregation of duties. The Clerk should be able to determine the composition of each deposit to resolve any irregularities or errors that might occur. Town and Real Property Tax Laws require that real property tax collections be deposited within 24 hours of receipt, and Clerk fees and licenses collected be deposited within three business days after the total of all the moneys received exceeds \$250. Good business practices dictate that all receipts, even if the total does not exceed \$250, should be deposited weekly and intact.<sup>9</sup> In addition to her elected Town Clerk position, the Board also appoints the Clerk to the position of tax collector (collector) on an annual basis.

The 2010 Clerk records were missing. As such, Town officials could not provide assurance that moneys collected during 2010 were properly accounted for. Further, the previous Clerk did not record whether receipts were in the form of cash or check and did not deposit moneys in a timely manner. In addition, she did not deposit real property tax receipts that she collected related to her role as collector in a timely manner. Failure to deposit receipts in a timely manner increases the risk that they could be lost or misappropriated.

Town Clerk Receipts — We attempted to test cash receipts from September 1 through October 31, 2010 to determine if they were being deposited intact and in a timely manner. However, Town officials could not provide us with the 2010 Clerk records such as a cash ledger, duplicate receipt book or deposit slips. The previous

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<sup>8</sup> These were all the credit card charges made in 2012 through the end of our scope period.

<sup>9</sup> "Intact" means that all cash collected since the last deposit must be deposited in the same form as it was collected (cash, check, or money order).

Clerk told us that she left the records at the Town Hall when she left office at the end of December 2011. Neither we nor current Town officials were able to locate any of the 2010 records. Without these records, Town officials have no assurance that receipts were properly recorded and deposited.

We also attempted to trace duplicate receipts from September 1 through October 31, 2011<sup>10</sup> to the corresponding deposits to determine if they were deposited intact and in a timely manner. However, the previous Clerk did not consistently record on the duplicate receipts the payment type (cash vs. check), and there was no receipt listing attached to the deposit slip showing which receipts comprised each deposit. Therefore, Town officials could not provide us with appropriate documentation to determine if the cash that was collected was deposited intact or in a timely manner.

Due to the lack of complete records, we obtained bank compositions<sup>11</sup> for seven deposits<sup>12</sup> totaling \$19,350 in an effort to determine if receipts were deposited intact and in a timely manner. We determined that the checks were not deposited in a timely manner. Specifically, these seven deposits included 76 checks totaling \$6,500; 57 of these checks totaling \$3,641 were held between four and 28 days before they were deposited.

In addition, we reviewed all 32 deposits totaling \$65,032 that were made during 2011 and found that deposits made into the Clerk's account were made sporadically and, in many cases, not in a timely manner. Two deposits totaling \$6,278 were not made for an entire month. For example, a deposit was made on May 5, 2011 totaling \$1,888; the next deposit totaling \$5,318 was made on June 8, 2011, or 34 days later.

Real Property Tax Receipts — We reviewed 305 real property tax collections totaling \$332,598<sup>13</sup> that were received during the 2011 tax collection season. Using the receipts located at Washington County,<sup>14</sup> we compared the dates the payments were received and the payment types (cash vs. check) to the duplicate bank deposit slips

<sup>10</sup> See Appendix B, Audit Methodology and Standards, for sampling methodology.

<sup>11</sup> A bank composition consists of a copy of each check contained in the deposit along with a copy of the bank teller's cash ticket.

<sup>12</sup> We obtained bank compositions for deposits made on September 1, 2011, September 29, 2011, October 5, 2011 (two deposits), October 12, 2011, October 20, 2011 and November 3, 2011. See Appendix B, Audit Methodology and Standards, for sampling methodology.

<sup>13</sup> See Appendix B, Audit Methodology and Standards, for sampling methodology.

<sup>14</sup> The Clerk recorded tax collections on two-part receipts provided by the County. The Clerk returns one portion to the taxpayer upon receipt and the other portion to the County at the end of the tax collection season.

and corresponding bank statements to determine if the receipts were deposited intact and in a timely manner. We found the receipts were deposited intact; however, the deposits were not being made in a timely manner. We found that 194 collections, or 63 percent of the receipts totaling \$209,821, were held between two and 13 days before being deposited.

We also reviewed 156 receipts totaling \$177,816<sup>15</sup> that were collected during the 2012 tax collection season. With the exception of a few minor issues we discussed with Town officials, the receipts were deposited intact and in a timely manner.

The Town's complete lack of cash receipts records for 2010 provides no assurance that these funds were properly accounted for. Further, the failure to deposit the 2011 receipts for Clerk fees and real property tax receipts in a timely manner increased the risk that errors, irregularities and misappropriations could have occurred and not have been detected or corrected.

## **Disbursements**

Generally, all fees received by the Clerk are the property of the Town, County or the State. The Clerk should remit these moneys promptly to the appropriate agencies. Town Law requires the Clerk to submit monthly to the Supervisor a verified statement of all moneys received and remit such moneys to the Supervisor on or before the 15th of the month following receipt. Clerks also must report and remit collections to other governments.<sup>16</sup>

Although the Clerk prepared timely monthly reports showing the amount to be remitted to the Town Supervisor and other agencies, she did not always turn over the moneys promptly. The Supervisor indicated that the Clerk was not turning the funds over to him in a timely manner, and that he deposited all remittances from the Clerk upon receipt.

We compared the date of the monthly Clerk's reports to the dates the related remittance checks cleared the Clerk's bank account. We reviewed all 14 remittances totaling \$48,214 made to the Supervisor during 2011 and found that the number of days between the Clerk's reports and the dates the checks were cashed ranged from one to 42 days.

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<sup>15</sup> See Appendix B, Audit Methodology and Standards, for sampling methodology.

<sup>16</sup> Domestic Relations Law section 15(3) requires town clerks to prepare a monthly report and remit collections of marriage license fees to the New York State Department of Health on or before the 15th of the month. Agriculture and Markets Law section 110 requires town clerks to prepare a monthly report and remit collections of dog license fees to the New York State Department of Agriculture and Markets for the Animal Population Control Fund on or before the fifth day of each month.

We also reviewed 31 remittances totaling \$1,859 that were submitted to the Department of Agriculture and Department of Health and found that they were not remitted in a timely manner. For the Department of Agriculture (16 remittances totaling \$952), the number of days between the dates of the reports and the dates the checks cleared the Clerk's bank account ranged from 10 to 208 days. For example, reports dated for the months of February through August 2011 were filed in September 2011, and the related remittance checks for these months all cleared on September 11, 2011. Furthermore, remittances to the Department of Health (15 remittances totaling \$907) also were not being made in a timely manner. The number of days between the dates of the reports and the dates the checks cleared ranged from 15 to 139 days. For example, reports dated from May through September 2011 were all filed in September 2011, and all the related checks cleared on September 19, 2011.

Failure to ensure that Clerk fees collected are remitted in a timely manner increases the risk that errors, irregularities and misappropriation of funds can occur and not be detected or corrected.

Given the lack of segregation of duties or other internal controls, inadequate records, the pattern of late deposits that could not be traced back to receipts, and late payments to the Supervisor and other creditors, we could not determine if all moneys received by the previous Clerk were deposited. These conditions, coupled with the previous Clerk's personal use of the Town credit card and the missing records for 2010, raise serious concerns about cash collections in the Clerk's office. We discussed these concerns with the Town Supervisor, who shares our concerns. The Supervisor told us that he contacted law enforcement officials to inquire about an investigation into the matter; however, given the fact that the previous Clerk repaid the personal amounts charged on the Town's credit card, the law enforcement officials have elected not to pursue the matter.

## **Recommendations**

1. The Board should ensure that all Town-issued credit cards are used for business purposes only and the monthly credit card statements are included with the monthly claims to be audited prior to payment.
2. The Board and Clerk should assess the credit limit on the Clerk's credit card account and reduce it to an appropriate level for the needs of her office.
3. The Clerk should deposit all moneys intact and in a timely manner.
4. The Clerk should remit moneys collected to the Supervisor and other agencies in a timely manner.

## Budgeting

An essential component of the Board's duties and responsibilities is to make sound financial decisions that are in the best interest of the Town and the taxpayers that fund its operations. The Board is responsible for ensuring that resources are available to fund the cost of Town operations. Therefore, it is essential that the Board adopt realistic, structurally balanced budgets for all of the Town's operating funds that provide recurring revenues to finance recurring expenditures. The annual budget for each operating fund is expected to provide a reasonable estimate of appropriations, revenues, and other financing sources.

We found that for 2010 and 2011, the Board adopted realistic and structurally balanced budgets that allowed the Town to maintain reasonable levels of fund balance. The 2012 budget estimates also appear reasonable and sufficient to maintain the Town's financial stability. However, since 2007, the Town has incorrectly budgeted and accounted for all of its sales tax revenues, totaling \$296,353, in the town-wide funds. This has resulted in an inequity among tax payers.

### Sales Tax Allocation

Tax Law authorizes counties to share sales tax revenues with certain local governments. When counties distribute sales tax revenues, the local governments must appropriately budget and account for those revenues. If a town includes a village, the village can elect to receive a share of the revenues allocated to the town. When a town and a village within the town both receive sales tax revenue, the town must use the sales tax to reduce real property taxes for the town-outside-village funds. If a town eliminates the real property tax levy in its town-outside-village funds, it can then choose to allocate a portion of its sales tax moneys to its town-wide funds.

The Town includes the Village of Argyle (Village); both the Town and the Village receive sales tax distributions from Washington County. However, since 2007,<sup>17</sup> the Town has incorrectly budgeted and accounted for all of its sales tax revenues, totaling \$296,353,<sup>18</sup> in the town-wide funds. This occurred because the Town did not apply the sales tax moneys first to the town-outside-village funds to reduce their real property taxes.

<sup>17</sup> For historical purposes, we went back to 2007 when the Town began receiving sales tax revenues from the County.

<sup>18</sup> Receipts through the third quarter of 2012

The Town's method of allocating sales taxes is not in compliance with statute. As such, taxpayer inequities have occurred between the tax base covering the complete Town and the tax base covering outside the Village boundaries. In effect, Town taxpayers with real property located in the Village have received an extra benefit from sales tax distributions from the County at the expense of taxpayers with property located outside the Village. Town officials told us they were unaware of the requirement that sales tax money was to be allocated in the town-outside-village funds until our examination.

## Budget Estimates

The Town's financial condition relies on the Board's ability to adopt realistic budgets and manage the Town's financial operations throughout the year within the budget's parameters. An important procedure for the Board to adequately monitor the budget is to regularly review the financial reports, compare budgeted revenues and appropriations to actual results, ensure there is reasonable fund balance,<sup>19</sup> and make appropriate decisions based on that information.

Town-Wide Funds — We reviewed the operating results for fiscal years 2010 and 2011 (the two most recently completed fiscal years) and estimated the operating results for 2012<sup>20</sup> for the town-wide general and highway funds. The Board adopted realistic and structurally balanced budgets and monitored the financial operations throughout the year by reviewing budget-to-actual comparisons and cash balance reports on a monthly basis. We found that the Board was active in the budget process and ensured that there was sufficient fund balance available for appropriation in the subsequent year's budget, when applicable. Although the town-wide general fund projects a \$52,000 planned operating deficit for 2012, \$20,000 of this deficit is attributable to an interfund transfer to the town-wide highway fund.

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<sup>19</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

<sup>20</sup> We based our 2012 estimates on prior year results and discussions with Town officials.

<b>Table 2: Town-Wide General Fund's Operating Results</b>			
	<b>2010</b>	<b>2011</b>	<b>2012 (Estimated)</b>
Total Beginning Fund Balance	\$280,841	\$214,114	\$211,877
Operating Surplus (Deficit)	(\$66,728)	(\$2,237)	(\$52,266)
<b>Total Fund Balance</b>	<b>\$214,113</b>	<b>\$211,877</b>	<b>\$159,611</b>
Less: Restricted Fund Balance	(\$22,320)	(\$987)	(\$987)
Less: Appropriated Fund Balance for Ensuing Year	(\$50,000)	(\$50,000)	(\$50,000)
<b>Total Unexpended Surplus Funds</b>	<b>\$141,793</b>	<b>\$160,890</b>	<b>\$108,624</b>

The town-wide highway fund's unexpended surplus funds declined from 2010 to 2011; the decline was mainly caused by the Town electing to use its surplus fund balance to finance equipment purchases. In 2012, the Board transferred funds from the town-wide general fund to the highway fund to replenish fund balance. Since both funds serve the same tax base, the transfer of moneys from the general fund to the highway fund is an appropriate use of funds. Furthermore, we estimate that the highway fund will have an operating surplus during 2012 due to the mild winter, which resulted in lower costs for snow removal and overtime. This surplus also will improve the level of unexpended surplus funds. The Board has maintained a reasonable level of fund balance for the two funds combined.

<b>Table 3: Town-Wide Highway Fund's Operating Results</b>			
	<b>2010</b>	<b>2011</b>	<b>2012 (Estimated)</b>
Total Beginning Fund Balance	\$74,135	\$60,108	\$2,554
Operating Surplus (Deficit)	(\$14,028)	(\$57,554)	\$87,053
<b>Total Fund Balance</b>	<b>\$60,107</b>	<b>\$2,554</b>	<b>\$89,607</b>
Less: Restricted Fund Balance	(\$678)	(\$678)	(\$678)
Less: Appropriated Fund Balance for Ensuing Year	(\$50,000)	\$0	\$0
<b>Total Unexpended Surplus Funds</b>	<b>\$9,429</b>	<b>\$1,876</b>	<b>\$88,929</b>

Part-Town Funds — We also reviewed operating results for the 2010 and 2011 fiscal years and estimated operating results for 2012<sup>21</sup> for the part-town general and highway funds. Similar to the town-wide funds, we found that the Board adopted realistic and structurally balanced budgets and monitored the financial operations throughout the year. Town officials only use the part-town general fund to fund the planning board; therefore, the budget is similar each year and has minimal variations. The part-town highway fund has continued to maintain reasonable levels of total fund balance from year to year due to conservative budget estimates. Unexpended surplus funds increased as a result of the Town not appropriating fund balance subsequent to 2010.

<sup>21</sup> We based our 2012 estimates on prior year results and discussions with Town officials.

<b>Table 4: Part-Town Highway Fund's Operating Results</b>			
	<b>2010</b>	<b>2011</b>	<b>2012 (Estimated)</b>
Total Beginning Fund Balance	\$34,887	\$87,858	\$74,460
Operating Surplus (Deficit)	\$52,971	(\$13,398)	\$21,716
<b>Total Fund Balance</b>	<b>\$87,858</b>	<b>\$74,460</b>	<b>\$96,176</b>
Less: Restricted Fund Balance	(\$31,825)	(\$1,301)	(\$1,301)
Less: Appropriated Fund Balance for Ensuing Year	(\$50,000)	\$0	\$0
<b>Total Unexpended Surplus Funds</b>	<b>\$6,033</b>	<b>\$73,159</b>	<b>\$94,875</b>

## Recommendations

5. The Board should budget and account for sales tax revenues in the town-outside-village funds in compliance with statute.
6. The Board should seek legal counsel to determine what remedies are available to address the \$296,353 in inequities that have occurred due to the improper accounting for and budgeting of tax revenues in the town-wide funds.
7. The Board should continue to closely monitor financial operations and take appropriate actions to maintain the Town's financial stability.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

Shelley McKernon  
Town Clerk

Roseanne Lemery  
Assessor



# Town of Argyle

41 Main Street  
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Tuesday, February 05, 2013

██████████  
NYS Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801

In Re: Draft audit report

Dear ██████████:

As we discussed in our exit interview, I appreciate the time and diligence your examiners accorded to this audit. I understand how busy your staff is at this time, but I did feel it was important to have a complete audit sooner rather than later. They behaved very professionally and you have reason to be proud of such a staff.

As we discussed in the exit interview, there were only a few areas in the draft report I felt could use a bit of further explanation. I will reiterate these sequentially and reference to pages in the draft report:

- 1) On page 8 was the first mention of a gap in Town Clerk records. It is portrayed as a “weakness” and carries a warning that “Town funds could have been lost or misappropriated.” I cannot quibble over 2010 checkbook records being unavailable. Three town employees and two auditors went through every file box of records on the premises and could not find them. However, the remainder of the 2010 clerk’s records were available and the financial data from the missing check registers were able to be reconstructed from the bank composition records we requested. Given the tightness of our budgeting process, it was possible to be quite confident no revenues were missing—although admittedly, since it is impossible to prove a negative, not unequivocally certain. I felt the negative was overstressed in the draft report, although I do understand the nature of an audit is to emphasize potential problems.
- 2) Also on Page 8, the auditors address an issue with the previous Town Clerk’s use of a Town credit card. I think it is important to point out that prior to the beginning of the audit, the Town had already taken steps to prevent this from happening again and had passed a very stringent credit card policy with double checks and balances monthly. Admittedly this is touched upon later in the document, but since the Town was very proactive on this issue, I felt it deserved more emphasis. It was also recommended that the credit limit on the cards should be reduced. The cards were obtained in the first place for some very specific activities that required credit card usage, could not be accomplished through our purchase order/voucher system and in the past had been done

using the Town Supervisor's personal credit card. This system was very unwieldy, involved reimbursement through the voucher system after the Supervisor had paid the charges personally, and also routinely made the Supervisor's personal financial records part of the public record. However, the Town cards have to be obtained through a commercial/municipal account and certain minimums apply. We have requested the credit limits be lowered, since it is seldom that charges as much as \$1000 would be made, but are advised this may not be possible under the terms of the commercial account.

- 3) On page 12, there is much discourse regarding timely submission of revenues by the Town Clerk. It deserves to be pointed out that the Town was very diligent in performing annual audits following the formula provided by the Comptroller's office. This proved insufficient to overcome internal record-keeping notations. The Town has augmented and added to these mandatory annual audits to help bring such issues to the fore, although it is admittedly very difficult for a Town Board to easily detect irregularities in an independently-elected Town Clerk's fiscal streams since the clerk is the official repository for documentation.
- 4) On Page 12, all recommendations were essentially addressed at the time the audit began.
- 5) On Page 14, there is discussion regarding the sales tax allocation. When the sales tax allocations were first made available to the town, we sought advice on how they were to be booked as revenues. The advice given would have been accurate, had the Village of Argyle not elected to take a tax distribution as well. We were unaware of a difficulty until notified during the course of the audit. Because of this misunderstanding, it is true the sales tax revenues were recorded on an inappropriate revenue line item up until FY 2013. However, given the annual maintenance agreements with the Village and the fact that annually a large portion of general fund money, particularly from the contingency line, is transferred to highway outside the village lines, the upshot is that it is unlikely any sales tax money was actually spent on general fund projects and, if it was, will be made up for and surpassed in the next FY or so when the end of the year transfers from contingency are made. The matter is being reviewed by our Town Attorney to generate the proper budgeting mechanisms to demonstrate the reapportionment.

Once again, thank you for providing the very competent staff to conduct this audit. I am looking forward to the final report.

Sincerely,

Bob Henke  
Argyle Town Supervisor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected the Town Clerk's office and financial operations for further audit testing.

To accomplish our objective, we interviewed appropriate Town officials and employees, tested selected records and examined pertinent documents for the period January 1, 2010 through June 30, 2012.<sup>22</sup> Our procedures included the following:

- We examined the Clerk's credit card statements from January 1, 2009 through June 30, 2012 to determine if purchases made were for proper Town purposes.
- We examined a judgmental<sup>23</sup> sample of the Clerk's duplicate receipts and deposits from September 1 through September 31, 2011 and October 1 through October 31, 2011 to determine if deposits were made intact and in a timely manner.
- We examined a judgmental<sup>24</sup> sample of the Clerk's duplicate receipts and deposits from May 1 through May 31, 2012 and June 1 through June 30, 2012 to determine if deposits were made intact and in a timely manner.
- We reviewed all<sup>25</sup> of the Clerk's deposits reflected in the bank statements from January 1 through December 31, 2011 to determine if deposits were being made in a timely manner.
- We examined a judgmental<sup>26</sup> sample of real property tax deposits made on January 13, 2011, February 14, 2011, March 1, 2011, March 24, 2011, January 17, 2012, February 23, 2012 and March 22, 2012 and traced the payments listed back to the original receipts located at Washington County offices to determine if the receipts were deposited intact and in a timely manner.

<sup>22</sup> We expanded our scope period through January 1, 2009 for our review of the Clerk's credit card use.

<sup>23</sup> We selected September 2011 and October 2011 due to the increase in conservation cash receipts and the irregularity and infrequency of deposits being made into the Clerk's bank account.

<sup>24</sup> We selected the last two completed months of our scope period, May and June 2012.

<sup>25</sup> We reviewed all the deposit dates from January 2011 through December 2011 due to the irregularity and infrequency of deposits being made into the Clerk's bank account.

<sup>26</sup> We selected our sample based on the length of time in between deposits.

- We examined all<sup>27</sup> the remittances made payable to the Town Supervisor, Department of Agriculture and Department of Health from January 1, 2011 through June 30, 2012 to determine if remittances were being made in a timely manner.
- We interviewed appropriate Town officials to gain an understanding of the budget development process for all Town funds.
- We reviewed adopted budgets for the fiscal years ending December 31, 2010 and December 31, 2011 and for fiscal year 2012 to determine if revenues and appropriations appeared reasonable and budgets were structurally balanced.
- We analyzed budgeted revenues and expenditures and actual revenues and expenditures for fiscal years 2010 through 2011 and budgeted revenues and expenditures for 2012 reported on the Town's financial records to determine if the estimates were realistic and based on historical trends.
- We analyzed actual results for fiscal years 2010 through 2011, interviewed Town officials, and estimated revenues and expenditures for fiscal year 2012 to determine if there were operating surpluses or deficits.
- We reviewed letters from the Washington County Treasurer's office detailing the report of moneys paid to the Town for sales tax revenue from 2007 through 2012.

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.

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<sup>27</sup> We selected all remittances for the last fully completed fiscal year through the end of our scope period.

## APPENDIX C

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