



Town of Scio

Highway Fund Financial Condition and Records and Reports

Report of Examination

Period Covered:

January 1, 2012 — August 12, 2013

2013M-279



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2014

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 Scio, entitled Highway Fund Financial Condition and Records and Reports. 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

EXECUTIVE SUMMARY

The Town of Scio (Town) is located in Allegany County and has approximately 1,800 residents. The Town provides various services to its residents including road maintenance, snow and ice removal and general government support. The Town's 2013 budget appropriations totaled approximately \$1 million for the general (\$280,000) and highway (\$730,000) funds, which were funded primarily with real property taxes and State aid.

The elected five-member Town Board (Board) is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations to maintain sound financial condition. The Town Supervisor (Supervisor) is a member of the Board and serves as the Town's chief executive and chief fiscal officer.

Scope and Objective

The objective of our audit was to review the Town's financial operations for the period January 1, 2012 through August 12, 2013. We extended our scope back to January 1, 2008 to analyze the highway fund's financial condition. Our audit addressed the following related questions:

- Did Town officials adopt reasonable budgets and adequately monitor the highway fund to ensure fiscal stability?
- Did the Supervisor maintain complete and accurate accounting records and reports to allow the Board to monitor the Town's financial operations?

Audit Results

The highway fund incurred a significant operating deficit in 2011 totaling more than \$180,000, which resulted in deficit unexpended funds.¹ The operating deficit was caused by substantial storm-related expenditures for which reimbursement was not received from the Federal Emergency Management Agency (FEMA) until 2012. Additional storm-related projects² were initiated in 2012 for which no

¹ 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).

² Storm damage projects initiated in 2011 and 2012 included road surface washouts, ditch erosion and culvert damage.

reimbursements from FEMA or the State Emergency Management Office were received. Town officials issued revenue anticipation notes totaling \$260,000 to provide the cash necessary to finance these projects. The general fund also made interfund loans, totaling more than \$101,000, to the highway fund to finance highway operations as of December 31, 2012, which were not repaid by the end of the year as required by statute. Further, Town officials did not develop detailed repair cost estimates and a plan to finance the 2012 projects prior to initiating them to ensure that adequate resources would be available as expenditures were incurred. As a result, any costs borne by the Town that are not reimbursed must now be financed through Town operations.

The Supervisor did not ensure that timely and accurate accounting records were maintained. The accounting records were incomplete and included inaccuracies that hindered filing the 2012 annual update document with the Office of the State Comptroller. As a result, the Board did not receive all the financial information it needed to effectively monitor the Town's financial operations. Finally, the Board did not ensure that audits of the records of all officials who receive and disburse Town funds were conducted and properly documented.

Comments of Town 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 that they plan to initiate corrective action.

Introduction

Background

The Town of Scio (Town) is located in Allegany County, covers approximately 35 square miles and has approximately 1,800 residents. The Town provides various services for its residents including road maintenance, snow and ice removal and general government support. The Town's 2013 budgeted appropriations totaled approximately \$1 million for the general (\$280,000) and highway (\$730,000) funds, which were funded primarily with real property taxes and State aid. The Town was significantly impacted financially by a flood in 2011 and received Federal Emergency Management Aid (FEMA) for the flood in 2012.

The elected five-member Town Board (Board) is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations to maintain sound financial condition. The Town Supervisor (Supervisor) is a member of the Board and serves as the Town's chief executive and chief fiscal officer. The Supervisor is responsible for receiving, disbursing and maintaining custody of Town money; maintaining accounting records and preparing financial reports. A bookkeeper assists the Supervisor with maintaining the Town's accounting records.

Objective

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

- Did Town officials adopt reasonable budgets and adequately monitor the highway fund to ensure fiscal stability?
- Did the Supervisor maintain complete and accurate accounting records and reports to allow the Board to monitor the Town's financial operations?

Scope and Methodology

We examined the Town's financial operations for the period January 1, 2012 through August 12, 2013. We extended our scope back to January 1, 2008 to analyze the highway fund's financial condition.

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 is included in Appendix B of this report.

Comments of Town 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 that they plan 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 Town Clerk's office.

Highway Fund Financial Condition

The Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers who fund its operations. This responsibility requires the Board to balance the level of services desired and expected by Town residents with the ability and willingness of the residents to pay for such services. Therefore, it is essential that the Board routinely monitor financial operations, adopt reasonable budgets and take appropriate action to maintain the Town's financial stability. The Board should develop a comprehensive plan to help manage the large amounts of financial resources required for capital projects. Additionally, towns are authorized by statute to make temporary interfund loans from one fund to another; however, these loans must be repaid no later than the close of the fiscal year in which they are made and should be reconciled at year-end.

Although normal operating budget estimates appeared reasonable, the highway fund incurred a significant operating deficit totaling more than \$180,000 in 2011 that resulted in deficit unexpended funds, as shown in Table 1.³

	2008	2009	2010	2011
Beginning Fund Balance	\$28,390	\$6,721	\$20,821	\$24,593
Revenues	\$473,568	\$482,198	\$497,920	\$495,239
Expenditures	\$495,237	\$468,098	\$494,148	\$675,631
Operating Surplus/(Deficit)	(\$21,669)	\$14,100	\$3,772	(\$180,392)
Total Unexpended Funds	\$6,721	\$20,821	\$24,593	(\$155,799)

^a 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).

The significant operating deficit in 2011 was caused by substantial storm-related expenditures for which reimbursement was not received from the Federal Emergency Management Agency (FEMA) until 2012. Further, additional storm-related projects⁴ were initiated

³ As of November 20, 2013, the 2012 annual report was not filed with the Office of the State Comptroller (OSC) and the Supervisor was still finalizing account balances because the accounting records were in poor condition (See Records and Reports). Therefore 2012 operating results and fund balance information was unavailable for comparison.

⁴ Storm damage included road surface washouts, ditch erosion and culvert damage.

in 2012 for which no reimbursements from FEMA or the State Emergency Management Office (SEMO) were received. As of August 12, 2013, all storm-related expenditures totaled more than \$690,000. Although the Town budgeted to receive \$252,000 in Federal and State reimbursements during 2013, the Town's SEMO disaster assistance representative stated that the Town is not likely to receive any significant reimbursement by the end of 2013.

Financing Highway Operations – To provide the cash necessary to finance the storm-related projects, the Town issued a revenue anticipation note (RAN) for \$60,000 in December 2011, which was redeemed in February 2012. The Town issued another RAN for \$200,000 in October 2012, which matured in March 2013. The Supervisor stated that the Town will need to issue additional cash-flow debt if a substantial portion of the Federal and State reimbursements are not received.

Additionally, the general fund made interfund loans to the highway fund to finance highway operations. The Town's 2011 annual report included an interfund liability of \$124,157 as of December 31, 2011. During 2012 the general fund loaned the highway fund an additional \$32,500. While the highway fund repaid \$55,000 of these loans, it still owed \$101,657 to the general fund as of December 31, 2012. The Supervisor indicated that his analysis identified \$82,500 as the amount owed to the general fund at the end of 2012. However, because the Supervisor's accounting records were unreliable and the required 2012 annual update document (AUD) was not filed with Office of the State Comptroller (OSC) (See Records and Reports section), no documentation was available to support his assertion. Further, these interfund loans were not repaid by the end of the year as required by statute.

Comprehensive Plan – The storm damage repair work performed in 2011 was initiated soon after the damage occurred. The need to expedite repairs did not allow Town officials adequate time to develop a comprehensive financial plan to finance these expenditures. However, the repair work performed in 2012 was initiated well after the storm occurred. The Board and Highway Superintendent did not develop detailed project cost estimates, after consulting with FEMA and SEMO representatives, nor a plan to finance these projects ensuring that adequate resources would be available as expenditures were incurred.

Because any capital indebtedness issued to finance such costs must be authorized prior to expenditures being incurred, any costs borne by the Town that are not reimbursed must now be financed through Town operations. Had the Board developed a comprehensive plan

before the 2012 projects were initiated and identified that certain estimated project costs might not be reimbursable, it likely could have authorized bonds to ensure that these projects would proceed and that an appropriate means of financing would be available, if needed. This also would have minimized any negative financial impact these projects had on the highway fund and other Town operations.

Recommendations

1. The Board should ensure that a comprehensive plan is developed for future capital projects, which includes detailed cost estimates and the extent to which financing through the issuance of short- and long-term indebtedness is necessary prior to authorizing each project.
2. The Board should develop a plan to repay the interfund loans to the general fund and address any deficit that remains in the highway fund after all Federal and State reimbursements are appropriately accounted for.

Records and Reports

The Town's financial data must be complete, accurate and current to effectively manage Town operations. Local governments must account for money received and disbursed through separate funds, each of which is a fiscal and accounting entity with a self-balancing set of accounts. The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions including maintaining accounting records, providing monthly financial reports to the Board and filing the AUD with OSC within 60 days of its fiscal year end.⁵ Additionally, the Board is required to annually audit the financial records of all Town officials who receive or disburse money.

The Supervisor did not ensure that timely and accurate accounting records were maintained. The accounting records were incomplete and included inaccuracies that hindered filing the 2012 AUD. As a result, the Board did not receive all the financial information it needed to effectively monitor the Town's financial operations. Additionally, the Board did not ensure that audits of the records of all officials who receive and disburse Town funds were conducted and properly documented.

Accounting Records

The Supervisor is responsible for maintaining adequate accounting records that allow for periodic and annual reports to be provided to the Board for its review. An adequate accounting system consists of journals, ledgers and other financial records that document each fund's transactions and account balances in a timely manner. In addition, the Supervisor must perform monthly bank-to-book reconciliations to ensure the timely identification and documentation of differences between the accounting records and bank balances. If the Supervisor assigns these duties to a bookkeeper, he should provide sufficient oversight to ensure the bookkeeper's reconciliations and records are reliable.

Although the bookkeeper maintained a general ledger, the accounts were not segregated by fund. Therefore, financial activity related to the general, highway, water and light district funds was commingled, which made analysis of each fund's financial condition difficult. Because not all Town funds represented the same tax bases, there is an even greater need to ensure each fund's integrity by accounting for each fund individually. We found that the Town's accounting records were incomplete and could not be relied upon because they were not organized appropriately and contained numerous accounting errors.

⁵ The Town may request a 30 day extension.

These factors, along with the Supervisor's failure to provide sufficient oversight over the bookkeeper's performance, contributed to the Supervisor's inability to perform proper monthly reconciliations needed to ensure the records' accuracy.

Our review of the accounting records identified a number of errors, including the manner in which long- and short-term debt, payroll and interfund borrowing were accounted for. These errors resulted in an inaccurate representation of the Town's financial activity and financial condition. According to the Supervisor, Town officials rely on each fund's cash balance to determine its financial position. However, due to inaccurate accounting for RANs and interfund borrowings, the cash balances alone did not show a true depiction of each fund's financial condition.

Due to the condition of the records, we reviewed the Town's bank statement activity and compared it with the accounting records to determine whether receipts and disbursements were properly recorded and found the following:

- RAN proceeds (\$200,000) were not recorded in the accounting records and a RAN repayment (\$60,000) was accounted for as an expenditure instead of a reduction of the related RAN liability.
- Serial bond proceeds totaling \$100,000 to purchase a highway truck and the related truck expenditures were recorded in the highway fund instead of the capital projects fund.
- Payroll and payroll-related expenditures were not recorded accurately. For example, the bookkeeper's records indicated that the Highway Superintendent's salary was only \$40,011, but he was actually paid \$41,200.
- Justice Court revenues were understated by \$1,975 in 2012 and overstated by \$7,393 in 2011 due to not properly recording all the Court's banking activity.
- Interfund liabilities were not recorded properly. For example, the \$6,891 repayment of an interfund loan from the water district fund to the general fund was recorded as miscellaneous revenue in the general fund and an expenditure in the water district fund instead of as a reduction of the amount owed to the general fund.

The Supervisor's failure to ensure that accurate financial records were maintained limits Town officials' ability to identify and correct

errors and irregularities. In addition, the Supervisor cannot provide accurate financial reports to the Board that are necessary for it to make informed financial decisions. Lack of accurate financial records also increases the risk of loss or unauthorized use of Town funds.

Supervisor's Reports

It is essential that the Board ensure that the information in the financial management system is up-to-date and accurate and that reports are prepared in a timely manner so that it can effectively exercise its oversight responsibility. Detailed financial reports provide essential financial information and enhance the Board's ability to oversee financial activities and monitor the Town's budget. The monthly financial reports the Supervisor submits to the Board are required to include all receipts and disbursements. To be more useful to the Board, these reports should also include cash balances and a comparison of budget-to-actual results of operations.

The Supervisor did not prepare and submit to the Board the required detailed statement of all money he received and disbursed during each month.⁶ In addition, the Board did not receive any type of budget-to-actual comparison on a timely basis nor did the Supervisor provide the Board with a list of reconciled bank account balances. As a result, the Board did not have the information necessary to make informed financial decisions about Town operations.

Annual Update Document Filing

The Town is required to annually complete and file with OSC a detailed report of all financial activity for the preceding year. This report, known as the AUD, provides the Board, OSC and Town residents with a tool for monitoring financial operations. The AUD is a summary of the Town's annual financial information which should contain detailed account balances and the financial activity for the preceding year that agrees with and is supported by the accounting records.

As a result of the Town's incomplete accounting records, as of November 20, 2013, the Supervisor was still in the process of preparing the AUD for 2012. Without timely annual financial reports, it is difficult for the Board to monitor the Town's financial operations or for Town officials to make prudent financial decisions.

Annual Audits

Town Law requires that the Board annually audit, or have an independent public accountant audit, the records and reports maintained by the Supervisor and all other Town officials who receive and disburse Town funds. Annual audits help Town officials ensure that the financial transactions are properly recorded and reported and that all money is properly accounted for. Additionally, while conducting

⁶ As required by Town Law

its audit, Board members should verify that records are accurate and up-to-date and that bank accounts are properly reconciled and agree with the accounting records.

Although the Supervisor stated that the Board audited the Town Clerk's records monthly and the Justice Court records for 2012, there was no documentation to substantiate his assertion. Our review of the Board minutes did not find indications that audits of any Town officials' records were conducted, including the Supervisor's records.

The Board's failure to conduct annual audits of Town officials' records precluded it from having assurance that all the Town's financial resources were properly accounted for. Had the Board performed annual audits, it would likely have identified the inadequate accounting records, lack of reconciliations and other deficiencies found during our audit in a timely manner and could have implemented corrective action.

Recommendations

3. The Supervisor should provide sufficient oversight of the bookkeeper's performance to ensure that the Town's accounting records are complete, accurate and maintained in a timely manner.
4. The Supervisor should file the required annual financial report and ensure that it is fully supported by the accounting records.
5. The Supervisor should provide the Board with a monthly report including all receipts and disbursements, cash balances and budgetary status information.
6. The Board should conduct annual audits of the financial records of all officials who receive or disburse Town funds and document the results of its audits in the minutes. To assist in the performance of its audit function, the Board should review our publication entitled *Fiscal Oversight Responsibilities of the Governing Board*.⁷

⁷ Available on our website – www.osc.state.ny.us/localgov/pubs/lgmg/fiscal_oversight.pdf

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

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

The Town's response letter refers to an attachment that supports the response letter. Because the Town's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.

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Daniel B Fleming, Supervisor (sciosupervisor@gmail.com)
Stacy Linnecke, Town Clerk (scioclerk@gmail.com)
Henry Farwell, Highway Superintendent
Robert Linnecke Water Superintendent (sciowater@gmail.com)

Town Board: Marcia Habberfield
Wrexie Ames
Jeffrey Kinney
Kimberly Demick

February 3, 2014

Mr. Robert E. Meller,
Chief Examiner of Local Government & School Accountability
NYS OSC, Buffalo Office
295 Main Street
Buffalo, NY 14203-2510

Dear Mr. Meller,

I have read over the audit report for the Town of Scio and I am submitting our comments as required. All in all I agree with much of the report and am working hard with the town board to correct the deficiencies noted. I commend [REDACTED] as I believe he handled the audit in a professional and very courteous manner. In addition, he was extremely helpful answering questions which arose during his time here.

The flood of May 2011 caused many issues in our highway funding and as of this writing we are still waiting on receiving our money. Our paperwork was sent in on a timely basis, however between the auditor sent by SEMO and people in either the SEMO or FEMA offices, paperwork was lost or misplaced several times causing many of the delays. We have proof that several invoices were sent and "never received" along with other important paperwork. This caused many delays. In addition, some things paid for in previous dealings with FEMA are no longer chargeable causing extra work correctioning data sent in. The SEMO auditor and someone from FEMA admitted the way the damage projects were written added to both the complexity and the difficulty in submitting paperwork. However, all those hurdles are behind us and still we wait.

Specific to the audit:

Audit Results (starting on page 2)

Issue 1 talked about the operation deficit in 2011 (page 2). The 2011 AUD did not show that the Town of Scio had a Due from Other Governments which would have significantly reduced the Total Unexpended Funds of \$155,799. In talking with [REDACTED] I asked if this should have been done and he agreed. The amount owed by FEMA as of that time was \$146,000. In addition, an audit showed the amount owed to the General was overstated and all corrections show up in the 2012 AUD under the Changes in Fund

Equity. These corrections turned the deficit from \$155,799 to a positive \$9,857. Truly this was my error in not reporting the due from FEMA as well as the General Fund error.

The report states that the funds borrowed from the General were not repaid as of 12/31/2012. These have now been repaid. Again this was my error.

The audit states that the town officials did not develop a detail repair cost estimates and plan to finance the 2012 projects prior to initiating them. We did not believe we had to develop a plan as FEMA had given us estimates of damage costs so we felt these were adequate to perform the work. The FEMA estimates are included as part of this response.

Lastly on this issue it is stated that the supervisor did not ensure timely and accurate accounting records. As of this writing the AUD is complete and submitted to the OSC. I did not have a budget to actual report at the board meetings which I should have. I did see that a balance sheet was provided and reviewed by the board members so we knew what our bank balances were each month. Good and sufficient audits were not performed but will be in the future.

HIIGHWAY FUND FINANCIAL CONDITION:

Financial Highway Operations

I believe these issues are covered in the above dealing with the Highway borrowing from General. The funds have now been repaid to General.

Comprehensive Plan

As stated above, the estimate we received from FEMA was our basis for the work done. FEMA listed our flood damage as 5 separate projects. One project was classified as small meaning it was less than \$100,000 and as such a check was written for the estimate. The other 4 projects were large and all work had to be documented and wait on reimbursement until work completion and paperwork submitted and approve. Much of the work could not be done in 2011 for several reasons. First was timing. We did what was absolutely necessary in 2011 knowing we could not finish everything. The highway department had other projects already scheduled for summer and fall. Many of these had to be delayed to do flood damage work while others were put off until spring and summer of 2012. Also some of the work done in 2012 was to roads which had to be worked on then let set for a period to harden before toppings could be applied. Once all the work was completed the proper paperwork was submitted to FEMA for their review. They in turn had questions and issues which had to be resolved. There were questions which arose as late as May 2013 and one request for a special permit in November of 2013. Everything requested has been supplied and we are still waiting on our reimbursement.

RECORDS AND REPORTS:

The audit states that the supervisor did not ensure timely and accurate accounting records. As noted above the 2012 AUD has now been submitted. And as noted the board received monthly balance sheets so they knew the bank balances. We did not perform good and sufficient audits of various accounts. The town clerks bank reconciliation was presented monthly and reviewed. The court was audited in 2012 and to the best of our knowledge their books were fine. A letter was sent to the Chief of Court Administration

stating we had performed an audit. I can't find a copy of the letter but a check with that office should prove we did the audit.

The town uses [REDACTED] for our accounting system. The town as one set of books thus the Highway, General, Water, and Lighting accounts are indeed under one set of books. Each account has a prefix (A for General, D for Highway, etc.) so accounts can be segregated as to which set of books the account belongs to. However, rather than use the GL, I print a detail transaction report to review accounts. One issue which I created is adding accounts to sub define accounts. For example I have A1620.4.1 to handle buildings expenses for the Community Building and A1620.4.2 to track expenses for as second building called Petrolia. This technique ended up hindering me more than helping and I have eliminated this for the future.

The audit states the RAN proceeds of \$200,000 were not recorded in accounting records. It was recorded but under an incorrect account. The RAN was under an account called RAN2012 recorded 12/20/2012. In addition the accounting of the \$100,000 for the purchase of a highway truck was correct on the 2012 AUD.

Audit report states "Justice revenues understated by \$1,975 in 2012 and overstated by \$7,393 in 2012." I'm not sure what this means or where the figures are coming from as no detail is present in the audit to show this issue.

Regarding the "Interfund liabilities not recorded properly." This has been corrected for future similar issues.

ANNUAL UPDATE DOCUMENT FILING

As of this writing the 2012 AUD has been submitted to the OSC. I called regarding some issues I did not understand and someone at the Albany office was extremely helpful and my issues were resolved quickly. Additionally [REDACTED] was very helpful in showing me the correct way to do many of the issues that were uncovered during his time here. I will comment that this is the first time in my tenure that my AUD has been late.

The Town Board met in executive session on January 27th to collectively review the report and read my response. The board felt, as I do, that several issues deal with incorrect accounting practices and changes can and will be made. The board and I take the audit very seriously. However, we can only say that what is in the past is in the past and we can only move forward with the recommendations of the auditor. The board has already adopted several measures to better handle the fiscal situations in the town and will be drafting our Corrective Action Plan as required. Several corrective actions were put in place before [REDACTED] had completed his audit.

A further comment from myself and the board is no money was found to be missing. We review detail reports to ensure they reflect what we approved at board meetings and have absolutely no reservation saying we believe our money is accounted for. In addition I always do a comparison of previous years to see that accounts are in line with those years or have an explanation where significant differences appear.

I do believe we will make the improvements necessary to ensure the negative findings will turn around in the immediate future. I also would hope we could have another audit in the next year to both ensure our changes have been properly made and we have no new glaring issues requiring changes.

Sincerely,

Daniel B. Fleming, 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 condition, cash receipts and disbursements, payroll and personal services, Town Clerk and Justice Court activities.

During our initial assessment, we interviewed Town officials, performed limited tests of transactions and reviewed pertinent documents such as Town policies and financial records and reports. We interviewed Town officials and reviewed Board minutes to obtain an understanding of the internal controls over the Town's financial operations.

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 highway fund's financial condition and records and reports for further audit testing. To accomplish our objective and obtain valid and relevant audit evidence, our procedures included the following:

Highway Fund Financial Condition

- We reviewed the Town's general ledger, cash receipts journal and real property and sales tax receipts to determine total highway fund revenue for 2012.
- We reviewed the Town's general ledger, cash disbursements journal, abstracts and vouchers to determine total highway fund expenditures for 2012.
- We performed additional financial analysis of the highway fund's financial condition.
- We performed budget-to-actual comparisons of revenues and expenditures and made inquiries of Town and SEMO officials to determine what caused the highway fund's operating surpluses and deficits and if they had a plan to address the highway fund's financial condition concerns.

Records and Reports

- We compared all 2012 accounting records to reconciled bank statements to confirm their reliability.
- We compared all 2012 general and subsidiary ledger account activity to bank statement activity to determine whether receipts and disbursements were accurately recorded.
- We interviewed Town officials and documented the reasons why the 2012 AUD was not filed.

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

APPENDIX C

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