



Town of DeKalb Financial Management

Report of Examination

Period Covered:

January 1, 2015 – June 30, 2016

2016M-427



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2017

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 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 DeKalb, entitled Financial Management. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of DeKalb (Town) is located in St. Lawrence County and has approximately 2,400 residents. The Town is governed by an elected five-member Town Board (Board) composed of four Board members and a Supervisor. The Board is the legislative body responsible for overseeing Town operations and financial affairs. The Supervisor serves as the chief executive officer and chief fiscal officer and is responsible for overseeing the Town's day-to-day operations. These responsibilities include maintaining the accounting records and providing the Board with timely, accurate and useful financial information. The Town hired an accounting firm (Firm) to perform some of the Supervisor's financial duties, including maintaining the Town's accounting records and preparing monthly and annual financial reports.

The Town provides various services to its residents, including highway maintenance and improvements, snow removal, water, sewer and general government. Budgeted appropriations for 2016 totaled \$1.5 million, funded primarily by real property taxes, sales tax, State aid and charges for services.

Objective

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

- Did Town officials provide adequate oversight of Town finances and properly safeguard the Town's accounting records?

Scope and Methodology

We examined the Town's financial records for the period January 1, 2015 through June 30, 2016. We extended our scope back to January 1, 2011 to review budget and fund balance trends.

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 agreed with our recommendations and indicated 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 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 Management

The Board is responsible for effectively planning and managing the Town's financial operations. The Board must adopt structurally balanced budgets for all operating funds and provide for sufficient revenues to finance recurring expenditures while providing desired services on a continuing basis. A basic component of budgeting is the prudent use of fund balance, which is the difference between revenues and expenditures accumulated over time. The Board should adopt a policy to govern the level of fund balance maintained in each fund and long-term plans that set forth the Town's financial objectives and goals. A well-supported, realistic budget helps ensure that only the necessary amount of real property taxes will be levied.

The Town contracts with an accounting firm to maintain the financial records and reports. The Town should have a written contract outlining the services to be provided and the Supervisor should properly oversee the Firm's work. The Town's financial records must be available for public inspection during reasonable hours and the Board is required to conduct or obtain an annual audit of the Supervisor's records.

Town officials did not adequately oversee the Town's financial operations and did not ensure that accounting records were properly safeguarded. In addition, the Town has accumulated excessive funds in the general town-wide fund. As of December 31, 2015, the unrestricted fund balance was about \$288,000, or 84 percent of the next year's budget. By not using a portion of these resources to fund operations, the Board may have levied higher property taxes than necessary. Also, the Board has not developed a policy to govern the level of fund balance to be maintained or adopted multiyear financial and capital plans to adequately address the Town's long-term priorities.

While the Board received monthly budget versus actual reports for revenue and expenditure accounts, it did not receive a detailed monthly statement of all money received and disbursed, information on cash balances by fund or bank reconciliations and bank statements. Without adequate monthly financial reports, the Board's ability to exercise appropriate financial oversight is diminished. In addition, although the Board entered into a written contract with the Firm performing financial services for the Town, the Supervisor did not appropriately monitor the Firm's work.

The Supervisor was unaware of any safeguards the Firm had in place to protect the Town's data and he did not ensure that financial records were available for public inspection at the Town offices. Finally, the

Board did not annually audit or cause an audit of the Supervisor's records.

Fund Balance

Town officials may legally set aside or reserve portions of fund balance to finance future costs for specific purposes, such as capital projects or retirement expenditures. Town officials may also designate a portion of fund balance to help finance the next year's budget (i.e., appropriated fund balance). In addition, the Town may retain a reasonable portion of fund balance, referred to as unrestricted fund balance, to use in the event of unforeseen financial circumstances.

Each town needs to assess the level of fund balance that is reasonable for its particular situation by considering various factors such as the timing of receipts and disbursements, unpredictability of revenues and expenditures and contingency appropriations. If fund balance is kept at excessively high levels, funds that could benefit the Town are not being used, which places an unnecessary burden on the taxpayers. Best practices provide that the Board adopt a policy to govern the level of fund balance to be maintained in each fund.

The Board has not adopted a fund balance policy or implemented procedures to govern the level of fund balance to be maintained. As a result, the Town accumulated excessive fund balance in the general town-wide fund.

	2011	2012	2013	2014	2015
Beginning Fund Balance	\$25,337	\$79,974	\$137,885	\$220,211	\$257,371
Add: Operating Surplus	\$54,637	\$57,911	\$82,326	\$37,160	\$30,755
Ending Fund Balance	\$79,974	\$137,885	\$220,211	\$257,371	\$288,125
Less: Appropriated Fund Balance for the Ensuing Year	\$0	\$0	\$0	\$0	\$0
Total Unrestricted Fund Balance at Year-End	\$79,974	\$137,885	\$220,211	\$257,371	\$288,125
Unrestricted Funds as a Percentage of Next Year's Budget	23.2%	39.8%	63.2%	72.9%	83.6%

Over the past five years, the general town-wide fund generated annual operating surpluses,¹ which increased total fund balance by nearly \$263,000. The main reason for this increase was that from 2011 through 2014 Town officials allocated more than \$107,000 of sales tax revenue that was not budgeted to this fund. When the total sales tax revenues exceeded the amounts budgeted in other funds, Town officials would record all or a portion of the excess into the general town-wide fund. Although general town-wide fund balance has continued to increase, the Board did not appropriate any fund balance to help finance the 2012 through 2016 adopted budgets. At the end of 2015, unrestricted fund balance was about \$288,000, or 84 percent of the next year's budget.

¹ An annual operating surplus occurs when revenues exceed expenditures during the year.

Town officials acknowledged that the general town-wide fund has accumulated a significant fund balance and indicated they plan to use the funds to renovate a Town owned property into a Court and library. In addition, the Supervisor told us he anticipates the Town will have to pay the New York State Department of Environmental Conservation (DEC) for clean-up costs associated with a hazardous materials spill that occurred at the Town highway garage in March 2013. According to the Supervisor and DEC officials, the spill's estimated cleanup cost is approximately \$150,000.

Although officials explained that the Board plans to set aside general town-wide fund money for building renovations and to pay DEC, the Board has not taken any action to formally establish reserves to restrict these funds or committed a portion of fund balance for any specified purposes.² As a result, the Board's plan for using the accumulated fund balance may not be transparent to residents and subsequent Town administrations may use the fund balance for purposes other than what this and previous Boards intended.

Multiyear Planning

Multiyear financial planning is a tool Town officials can use to improve the budget development process. It is important for Town officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs.³ Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Such plans enable Town officials to identify developing revenue and expenditure trends, set long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years and avoid large fluctuations in tax rates.

Multiyear plans allow Town officials to assess the effect and merits of alternative approaches to address financial issues, such as using fund balance to finance operations and accumulating money in reserve funds. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the financial priorities and goals set by the Board. Such plans should include specific estimates for revenues, expenditures, reserves and fund balance. Any long-term financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

² Governmental Accounting Standards Board Statement 54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. Committed fund balance consists of amounts that are constrained to a specified purpose imposed by a formal action of the Town Board and that require the same level of formal action to remove the constraint.

³ Guidance is available in the Office of the State Comptroller's publication titled *Local Government Management Guide, Multiyear Financial Planning*, available at <http://www.osc.state.ny.us/localgov/pubs/lmgm/multiyear.pdf>.

The Board has not developed written multiyear financial and capital plans. As a result, its ability to effectively manage Town finances is diminished.

Financial Records and Reports

New York State Town Law (Town Law) requires the Supervisor to maintain complete and accurate records that are open and available for public inspection at all reasonable times. Town Law requires that, at the end of each month, the Supervisor submit a report to the Board of all money received and disbursed. Monthly reports should also include comparisons of actual revenues and expenditures to amounts estimated in the annual budget (budget vs. actual report), reconciled cash balances for each fund and bank reconciliations accompanied by bank statements. Such reports enable the Board to effectively monitor and oversee the Town's financial activities.

The Board contracts with an accounting firm to perform some of the Supervisor's financial duties and has a written contract in place that outlines the services to be performed and the compensation to be paid. However, it is important that the Supervisor oversees the Firm to ensure that it is performing the agreed upon duties effectively and that the Town's financial data is adequately safeguarded.

Most Town records, including cash receipt and disbursement journals, revenue and expenditure subsidiary ledgers, the general ledger and bank reconciliations, were maintained by the Firm away from the Town office. As a result, these records were not readily available for public inspection, as required by Town Law. Further, the Board did not review the records and the Supervisor did not periodically review the records to properly oversee the Firm's work.

Although the Firm provided the Board with monthly budget vs. actual reports for revenue and expenditure accounts, the Board did not receive a detailed monthly statement of all money received and disbursed in accordance with Town Law. In addition, while the Firm annually provided the Board with a surplus/deficit report and ending fund balances, it did not provide monthly information on cash balances by fund, bank reconciliations or bank statements. Without adequate monthly financial reports, the Board's ability to exercise appropriate financial oversight is diminished and it is more difficult for the Board to make informed decisions about the Town's financial operations and condition.

Further, although the Town has a written contract with the Firm outlining the records to be maintained, services to be provided and compensation to be paid, it does not address the requirements for backing up and securing the Town's financial data. The Supervisor was unaware of any safeguards the Firm had in place to protect the Town's data.

A Firm representative told us that backups are performed nightly and stored on a cloud computing server (which enables the sharing, storing and accessing of data and programs over the Internet), and the data could be recovered quickly in the event of a disaster or other event that disrupts operations. However, in the absence of a written contract which requires the Firm to back-up and secure the Town's data, Town officials have limited assurance that the necessary safeguards are in place.

We reviewed cash receipts and disbursements, bank reconciliations and general ledgers for December 2015. Although we found that the accounting records were adequate, the limited oversight provided by the Supervisor diminishes Town officials' ability to ensure that the Firm carries out all the expected financial duties. As a result, there is an increased risk that errors or irregularities could occur and not be detected or corrected and that the Town's data may not be adequately safeguarded.

Annual Audit

Town Law requires the Board to annually audit the Supervisor's records and those records of any Town officer or employee who received or disbursed any money in the previous year. The Board may either perform an annual audit or engage the services of a certified public accountant or public accountant to perform this function within 20 days of year-end. The purpose of an annual audit is to provide assurance that public money is properly handled (i.e., deposited in a timely manner and accurately recorded and accounted for), identify conditions that need improvement and provide oversight of Town financial operations. A thorough annual audit also provides the Board an added measure of assurance that financial records and reports contain reliable information on which to base management decisions.

The Board audited the records and reports for the Town Clerk and Town Justice each month and documented its results in the Board minutes. However, the Board did not perform an annual audit or any periodic audits of the Supervisor's 2015 books and records. This diminishes the Board's ability to monitor the Town's financial operations and could result in errors or irregularities occurring that remain undetected and uncorrected.

Recommendations

The Supervisor should:

1. Ensure that all financial records are kept at Town offices and are readily available for public inspection, as required.
2. Properly oversee and monitor the work that the Firm is performing on his behalf.
3. Ensure that monthly reports to the Board include a detailed statement of all money received and disbursed, along with

reconciled cash balances for each fund and bank reconciliations accompanied by bank statements.

The Board should:

4. Develop a fund balance policy that establishes a reasonable amount of fund balance that should be maintained in each fund in order to meet the Town's needs.
5. Ensure that the excess unrestricted fund balance in the general town-wide fund is used in a manner that benefits Town residents. The excess funds could be used as a financing source for:
 - Funding one-time expenditures;
 - Funding necessary reserves or committing fund balance for a specific use; or
 - Reducing real property taxes.
6. Develop comprehensive multiyear financial and capital plans that project operating and capital needs and financing sources for a three- to five-year period.
7. Establish a written contract with the Firm that outlines the requirements for backing up and securing the Town's data.
8. Annually audit or cause an audit of the Supervisor's books and records.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF DEKALB



Town Supervisor

John Frary
(315) 347-3331

Highway Superintendent

Jody Hamilton
(315) 347-3323
Cell (315) 771-4767

Town Clerk

Barbara A. Creazzo
(315) 347-3331

PO BOX 133 DEKALB JCT., NY 13630

PHONE (315) 347-3331

Fax: 315-347-4477

NYS Relay for TTY Users:

1-800-662-1220

Town Website:

www.townofdekalb.org

Town Justice

Howard Putney
(315) 347-2071

Town Council

Harold Lowery
Michael Livingston
Rae Ann Davis
Ed Newcombe

From: John M. Frary
Town of DeKalb Supervisor

February 17, 2017

To: Office of the State Comptroller

I am responding to the preliminary draft report for the Town of DeKalb dated February 3rd, 2017.

2016M-427

The Supervisor should:

Item 1 Ensure that all financial records are kept at Town offices and are readily available for public inspection, as required. *We agree with the findings, after discussion with auditor, and will set in place plans and procedures to ensure that the records are available upon request.*

Item 2 Properly oversee and monitor the work that the Firm is performing on his behalf. *We understand the concern after discussion with auditor and will set in place plans and procedures to ensure that more oversight is accomplished on a monthly level.*

Item 3 Ensure that monthly reports to the board include a detailed statement of all money received and disbursed, along with reconciled cash balances for each fund and bank reconciliations accompanied by bank statements. *We felt that we were providing the above in our year to date financial report each month but agree that it is not as required. We will set up additional reports for money received and expended and total cash balances for each fund.*

The Board should:

Item 4 Develop a fund balance policy that establishes a reasonable amount of fund balance that should be maintained in each fund in order to meet the town needs. *We understand the request and will formulate fund balance policy.*

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TOWN OFFICES ARE ACCESSIBLE

Item 5 Ensure that the excess unrestricted fund balance in the general town-wide fund is used in a manner that benefits Town residents. The excess funds could be used as a financing source for:

Funding one-time expenditures

Funding necessary reserves or committing fund balance for a specific use

Reducing real property taxes

We will see that any excess fund balance meets the criteria stated.

Item 6 Develop comprehensive multiyear financial and capital plans that project operating and capital needs and financing for a three to five-year period. *Although we have established a 10-year capital needs for highway department we see the need for a town wide comprehensive plan.*

Item 7 Establish a written contract with the firm that outlines the requirements for backing up and securing the Town's data. *We agree that our contract needs to be modified as it did not include the specifics of backing up securing the Town's data, although that has always been provided.*

Item 8 Annually audit or cause an audit of the Supervisor's books and records. *We will set up steps to ensure that this will be done*

John M. Frary
Town of DeKalb Supervisor
(original signature redacted)

2/17/16

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TOWN OFFICES ARE ACCESSIBLE

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials and reviewed policies to obtain an understanding of the Board's process for monitoring financial condition.
- We determined the reliability of the financial records by reviewing cash receipts, cash disbursements, bank reconciliations, annual update documents and general ledgers.
- We performed a five-year financial comparison for 2011 through 2015 to examine trends in revenues, expenditures and operating results for all operating funds.
- We reviewed the Board-adopted budgets and tax levies for 2011 through 2016 to determine the amount of fund balance appropriated.
- We assessed the Town's financial condition and calculated unrestricted fund balance as a percentage of the ensuing year's budget.
- We obtained an understanding of the Board's process for safeguarding the Supervisor's accounting records.
- We interviewed the Supervisor and staff at the Firm to obtain an understanding of the services the Firm provides to the Town.
- We reviewed Board minutes and interviewed Board members and Town officials to determine if the Board conducted an annual audit of all Town officers and employees that receive or disburse money.

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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