



Town of Lincoln Financial Management

Report of Examination

Period Covered:

January 1, 2012 — December 31, 2012

2013M-245



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
FINANCIAL MANAGEMENT	5
Fund Balance and Budgeting	5
Annual Audit	9
Recommendations	10
APPENDIX A Response From Local Officials	12
APPENDIX B OSC Comments on the Town's Response	16
APPENDIX C Audit Methodology and Standards	17
APPENDIX D How to Obtain Additional Copies of the Report	18
APPENDIX E Local Regional Office Listing	19

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 the Town of Lincoln, 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 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 Lincoln (Town) is located in Madison County and has a population of approximately 2,000. The Town is governed by the Town Board (Board) which consists of four elected Board members and an elected Town Supervisor (Supervisor). The Town offers a variety of services to its residents, including street maintenance and improvements, snow removal, street lighting, and general government support. The Town's 2012 operating expenditures totaled \$212,501 for the general fund and \$332,686 for the highway fund. These expenditures were primarily funded with revenues from real property taxes, sales tax, and State aid.

The Supervisor serves as the Town's chief executive officer, chief fiscal officer and budget officer. As chief fiscal officer, the Supervisor is responsible for virtually all of the Town's financial duties, including receipt and disbursement of Town monies, maintaining financial records, and preparing the budget and various financial reports. The Board appointed a bookkeeper to assist the Supervisor with recordkeeping responsibilities. The Board is responsible for overseeing the Town's operations and finances, which includes ensuring the performance of an annual financial audit, whether conducted by the Board itself or by contracting with an outside auditor.

Objective

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

- Did the Board provide adequate oversight of the Town's financial operations?

Scope and Methodology

We examined the Town's financial management for the period January 1, 2012, through December 31, 2012. In addition, we extended our review of financial trends back to 2010.

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 C of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to initiate corrective

action. Appendix B includes our comments on issues raised in the Town's response letter.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Financial Management

The Board is responsible for making sound financial decisions that are in the best interests of the Town and its residents. This requires the Board to balance the level of services desired and expected by the Town's residents with the ability and willingness of the residents to pay for the services. One 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 budgets that include realistic estimates of revenues and expenditures and should use surplus fund balance as a funding source, when appropriate. 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. The Board is also responsible for ensuring the performance of an annual financial audit of those officers and employees who receive and disburse funds, whether conducted by the Board itself or by contracting with an outside auditor.

As of December 31, 2012, the Board accumulated unexpended surplus funds¹ in the general fund totaling \$458,698, which were excessive compared to the 2013 budget of \$255,420. This primarily occurred because the Board underestimated budget revenues in previous years and did not adopt a policy to govern the level of fund balance to be maintained. The Board also did not develop a long-term financial plan or establish reserves to ensure unexpended surplus funds will be used as this Board intends, or in other ways to benefit taxpayers. Lastly, the Board did not audit the records and reports of the Supervisor or Town Clerk-Tax Collector (Clerk). As a result, the Board is at risk of failing to detect and correct errors, irregularities, or fraudulent activity.

Fund Balance and Budgeting

Maintaining a reasonable level of unexpended surplus funds is a key element of effective long-term financial planning. If the amount retained is too low, the Town may not have a sufficient financial cushion for emergencies. If this amount is excessive, moneys are unnecessarily held instead of being used to benefit taxpayers. To

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).

help ensure the level of unexpended surplus funds is reasonable, the Board should adopt budgets that are based on realistic estimates of revenues, expenditures and fund balances available for appropriation, and adopt a policy that addresses the level of unexpended surplus funds it plans to maintain.² Town officials can legally set aside, or reserve, portions of fund balance to finance future costs for a specified purpose, designate a portion of fund balance to help finance next year’s budget and/or retain unexpended surplus funds for future use. These practices help ensure that only the necessary amount of real property taxes will be raised.

As of December 31, 2012, the Board accumulated unexpended surplus funds in the general fund totaling \$458,698, which were excessive compared to the 2013 budget of \$255,420. At this level, the Town would be able to sustain operations for nearly two years without additional revenues. This primarily occurred because the Board underestimated budgetary revenues by a total of 22 percent, such as by 44 and 21 percent for landfill and fine revenues specifically. The Board’s ability to ensure realistic budget estimates has been made difficult because the Supervisor did not provide the Board with written budget-to-actual reports or complete preliminary budgets to review. The Board also did not adopt a policy to indicate what constitutes a reasonable level of fund balance, or a long-term financial and capital plan, which could help address the large accumulated general fund balance. The Board plans to use some of the accumulated surplus for debt service and to purchase equipment, and has four reserve cash accounts totaling \$206,101. However, the Board did not formally establish reserves to restrict the use of these funds. The Board could also use the excessive unexpended surplus funds to finance one-time expenses or reduce property taxes.

General Fund — Unexpended surplus funds have been increasing over the last three fiscal years.

Table 1: Fund Balance – General Fund			
	2010	2011	2012
Year-end Fund Balance	\$355,387	\$384, 346	\$468,698
Appropriated Fund Balance for Ensuing Year’s Budget	\$15,000	\$10,000	\$10,000
Unexpended Surplus Fund Balance	\$340,387	\$374, 346	\$458,698
Unexpended Surplus as Percent of Ensuing Year’s Appropriations	142%	154%	180%

² When determining what amount of unexpended surplus funds is reasonable, the Board should consider various factors such as timing of receipts and disbursements, volatility of revenues and expenditures, contingency appropriations, and reserves that have been established for various purposes.

Although the Town began accumulating excessive unexpended surplus funds prior to our audit period, the Board has continued to increase the amount over the past three years. This increase mostly resulted from the Board's underestimating revenues when preparing the annual budgets. Actual revenues from 2010 to 2012 were \$150,713 or 22 percent more than the budgeted estimates. Approximately \$98,783, or 65 percent of the underestimated revenues were for landfill revenues, fines, and forfeited bail. A Board member told us the Board prefers to budget conservatively to protect itself from budgeting revenues the Town may not actually receive. While conservative budgeting is desirable to a point, this approach has led to annual operating surpluses and the continued accumulation of excessive unexpended surplus funds that exceed what the Town needs to operate for an entire year.

Unexpended surplus funds have been increasing despite the fact that the Board adopted budgets that indicated the Board planned to use fund balance to partially fund operations. The Town's budgets included planned operating deficits of \$15,000 for 2010 and 2011 and \$10,000 for 2012. However, because the Town's operations resulted in annual operating surpluses, none of the fund balance appropriated was needed or used.

The Supervisor and two Board members told us the Board appropriates a consistent amount of fund balance in the budget each year and that the Board has never considered, or adopted a policy to indicate, what constitutes a reasonable amount of fund balance for the general fund. When the Board does not make a determination as to what a reasonable level of fund balance is, there is an increased risk that taxes will be raised unnecessarily. Possible uses for the Town's excessive unexpended surplus funds include, but are not limited to, financing one-time expenses, reducing property taxes, or funding necessary reserves.

Reserves — Reserve funds are authorized by law to provide a mechanism to set aside moneys to finance a variety of objects or purposes.³ Reserve funds should be established with a clear intent regarding the future purpose, use, and, when appropriate, replenishment of funds from the reserve. They should not be merely a “parking lot” for excess cash or fund balance.

Although the Board has separate cash accounts set up in the general and highway funds that it considers to be reserves, and a plan for some of the excess unexpended surplus funds, it has not legally established reserves to restrict the use of these moneys. The Board has three

³ Guidance is available in the Office of the State Comptroller publication entitled *Local Government/ Management Guide, Reserve Funds*, <http://www.osc.state.ny.us/localgov/pubs/lmgm/reservefunds.pdf>

reserve cash accounts in the general fund totaling \$133,946, or 29 percent of the \$458,698 unexpended surplus fund balance. However, the Board has never adopted resolutions to formally establish reserves for any of the surplus moneys in the general fund, including the separate cash accounts that are considered reserves in name only. The Supervisor and a Board member told us approximately \$73,138 of the total reserve cash is planned to pay debt on a recently constructed highway garage. The Board does not have any plans for the remaining \$60,808.

The Board has one reserve cash account in the highway fund totaling \$72,155 that represents a capital reserve purportedly established several years ago by a previous Board to finance equipment purchases.⁴ However, neither the Supervisor nor the Clerk could find any evidence that this reserve was formally established. The Board recently funded this reserve mainly through annual budget appropriations⁵ and surplus operating funds. Disbursements totaling \$198,000 were made in 2011 for a new plow truck and \$41,600 in 2012 for a new pickup truck. Depending on the purpose of a reserve and how it could have been originally set up, different rules would have applied for public approval of expenditures from it.

The Board's failure to establish reserves for some of the accumulated unexpended surplus moneys in the general and highway funds diminishes transparency as to how it plans to use these surplus moneys. In addition, subsequent administrations could use these moneys for purposes other than what this and previous Boards intended.

Budget-to-Actual Reports and Budget Format — Good management practice includes the Board's review of monthly financial reports that include budget-to-actual comparisons by fund for total revenues and expenditures and for individual revenue and expenditure accounts. The Board should also review preliminary budgets that contain actual revenues and expenditures for the last fiscal year and updated estimates for the current year-to-date, and estimates of the fund balances that will be remaining at year-end.⁶

The Supervisor provides the Board with monthly reports of receipts and disbursements including beginning and ending cash balances for each fund. However, he does not provide written budget-to-

⁴ General Municipal Law provides authority for the Board to establish a capital reserve for the purchase of equipment.

⁵ Per review of the adopted budgets: \$40,000 each year in 2010, 2011, 2012, and 2013

⁶ The estimates should include the amounts legally restricted for reserves, the amounts appropriated to finance the next year's budget, and the remaining unexpended surplus funds.

actual reports for revenues and expenditures. Budget control sheets that include budget-to-actual updates are prepared monthly by the bookkeeper. The control sheets are provided to the Supervisor who verbally reports the budget status updates to the Board. Although we were informed that the Supervisor verbally reviews each line item with the Board during the annual budget deliberations, the Board does not receive any written budget-versus-actual results as part of the budget process. In addition, the 2013 preliminary budget only contained budgeted amounts for the past four years and proposed amounts for 2013. It did not provide actual revenues and expenditures for the past fiscal year or updated budgetary estimates for the current year-to-date, or include estimates of the fund balances that will be remaining at the close of the current fiscal year.

Board members told us they rely on the Supervisor's verbal updates and the cash balances reported to them and ask questions as needed. However, when the Board does not receive budget-to-actual reports or complete preliminary budgets, it makes it difficult for the Board to independently monitor financial operations of the Town and ensure budget estimates are reasonable.

Long-Term Planning — An important Board oversight responsibility is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important to develop a comprehensive, long-term financial and capital plan to estimate the future costs of ongoing services and capital needs. An effective long-term plan projects operating and capital needs, and financing sources, over a three- to five-year period. Planning on a long-term basis allows Town officials to identify developing revenue and expenditure trends and set long-term priorities and goals. It also allows them to assess the impact and merits of alternative approaches to financial issues, such as accumulating money in reserve funds and the use of fund balance to finance operations. Any long-term financial plan should be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board did not adopt a long-term financial and capital plan. Such a plan would help the Board address the large fund balance in the general fund. The Board indicated it has plans to use some of the accumulated unexpended surplus fund in the general fund for debt service and to finance equipment purchases in the highway fund.

Annual Audit

Town Law⁷ requires that, annually, on or before January 20, each Town officer and employee who received or disbursed any moneys in the previous year account for these moneys with the Board. The purpose of this annual accounting is to provide assurance that public

⁷ Town Law provides that the Board may also engage the services of a CPA or public accountant to conduct the audit.

moneys are handled properly (e.g., deposited in a timely manner, accurately recorded, and accounted for), to identify conditions that need improvement, and to provide oversight of the Town's financial operations. An annual review 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 did not audit, or cause to be audited, the books, records and reports of the Supervisor or Clerk. In addition, we confirmed with the Supervisor that the Board has not audited his records or the Clerk's since he took office in 2008.

The Board's failure to examine accounting records and reports, hinders its ability to maintain accountability over the Town's financial operations and develop safeguards to protect Town assets from loss, waste, or abuse. Without an annual audit, the Board is at risk of failing to detect and correct errors, irregularities, or fraudulent activity in a timely manner.

Recommendations

1. The Board should develop a formal plan to use the unexpended surplus funds in the general fund in a manner that will benefit taxpayers. If the Board believes it is necessary to accumulate moneys for future purposes, it should formally establish authorized reserves. Other uses of surplus funds could include, but are not limited to, financing one-time expenses and reducing property taxes.
2. The Board should adopt budgets with realistic estimates of anticipated revenues and fund balance available for appropriation.
3. The Board should adopt a fund balance policy that addresses the level of unexpended surplus funds to be maintained in the Town's operating funds.
4. The Board should research the origin and purpose of the existing highway reserve. If the Board is unable to determine the origin and purpose of the reserve, the Board should formally establish the reserve in conformance with General Municipal Law.
5. The Board should ensure that the Supervisor provides it with monthly budget-to-actual reports.
6. The Supervisor should provide the Board members with copies of the preliminary budget that include, at a minimum, actual revenues and expenditures for the last fiscal year, updated estimates for the current year-to-date, preliminary estimates for the ensuing year, and estimates of the fund balances at the close of the current fiscal year.

7. The Board should develop a long-term plan that projects operating and capital needs and financing sources over a three- to five-year period. The plan should be monitored and updated on an ongoing basis.
8. The Board should audit or engage an independent auditor to audit the books, records, and reports of the Supervisor and Clerk.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF LINCOLN

COUNTY OF MADISON

LINDA HAPPLE
Town of Lincoln Clerk
3849 Timmerman Rd.
Canastota, NY 13032
315-697-8837

DARRIN BALL
Supervisor, Town of Lincoln
3849 Timmerman Rd.
Canastota, NY 13032
315-697-8837

November 4 2013

Town of Lincoln Audit Response 2013M-245

The draft audit report and verbal comments received following the audit period of Jan 1 -- Dec 31 2012 were shared with the Town of Lincoln board and have since reviewed its findings and recommendations. While the town acknowledges the need to review these materials and found the auditor and its results helpful during the budget process it also found that a considerable amount of time was spent to help compile the requested information. This considerable time spent does have a cost impact to the Town of Lincoln. Due to the timing of the draft report occurring just as the preliminary budget was drafted some of the components were easily utilized and others will be used next year.

This response will identify the areas that we agree are deficient but also provide insight and explanation to the areas that the Town does not agree with. We do feel the report uses language such as "fault" that is unnecessary considering that the oral comments included such items as "no fraud" was found and many of the areas of review were found to be well intended or simply put in the wrong place. The AUD report completed by an outside firm was believed by all board members to be not only in compliance with the NYS reporting requirements but also served to be an annual audit since it was completed by an outside CPA.

The financial management piece identified on page #6 that the board should adopt a policy to govern the level of fund balance maintained in each fund has up to this point never been considered by the current or previous boards to the best of our knowledge. It is our intention to address this in our corrective action plan. The board does feel that although it has not placed on paper a specific long term plan it did discuss at several board meetings its intentions to address the Towns future needs such as a new highway garage that was constructed at a reduced cost to the taxpayer by utilizing unanticipated fund balance. The same principal was intended to construct a new Town Clerks office utilizing existing fund balance, again without a tax increase and without bonds. As evidenced by numerous board minutes the intent was to benefit taxpayers and the needs of the community with little to no financial impact. The board has since passed a resolution to reserve specific funds intended for this purpose and will have to readdress the repair of buildings after the primary construction project is completed. We have seen numerous cases of "financially distressed" municipalities and considerable cases of local fraud but we are "faulted" for safeguarding the taxpayer's funds.

See
Note 1
Page 16

Fund balance and budgeting on page six identifies underestimation of anticipated funds. The Town had explained that we did budget conservatively and considering that many of the funding programs were either in jeopardy of being cut or reduced significantly we did not want to overestimate and be short. As an example we were actually short \$ 5,000 in our anticipated mortgage tax revenue for 2011. Also our Landfill revenue is based upon tonnage and since it is a new revenue stream for the town and knowing that the solid waste department was seeing reduced tonnage delivered because of increased recycling programs the actual revenue was unknown. The board intends to use this unstable funding to pay off existing bonds once enough is accumulated. The judicial fines have historically been stable, however we have one judge that goes above and beyond in most recent years and currently has a willingness to take and hold cases resulting in additional revenue for the town. It was unclear if this judge was going to continue and therefore we could not rely on revenue that was not going to be there. In addition to this the board was asked to make an additional payment to our existing debt to reduce interest costs as recommended by the budget officer knowing that the town had additional unanticipated fund balance. Board motion was approved and additional \$ 20,000 was paid in 2/11/2011. When the current supervisor took over 6 years ago there were no budget to actual reports being done and this was one of the first things that was changed. The board was aware of the budget to actuals being done and kept however they never asked to see them. The 2014 preliminary budget proposal to the board included the 2013 budget to actuals. On page 7 the draft report states that the town could “sustain operations for nearly two years” and that is true if we chose to do nothing else. The report indicates that the existing reserve funds are in name only because we could not produce a resolution that was done in the 1980’s. Every board since this period of time intended to establish “reserve funds” as evidence by the name on the accounts. We place revenues and or budget money in a reserve fund and when we have enough we make a purchase or pay existing debt. I guess we in Lincoln have always tried to live within our means or pay as we go not live hand to mouth or have extreme debt that we have difficulty paying. Maybe the state and federal government should look at us instead of raising the debt ceiling and closing the government down? Again we have had numerous discussions at board meetings about intentions of constructing a new clerk’s office with expectations of 200-225K, We have had discussions at board meetings to solve an existing drainage problem at the highway garage expected to be 50K The existing debt the town has is in excess of 119K of that 92K on the highway garage and the balance on the existing water district. The board also chose to expend an additional 15K this year (2013) to pave and maintain more roads due to the significant deterioration. The board also approved to expend additional funds to purchase a new sander for one of the highway trucks totaling 16K. We have made one time purchases as we feel comfortable based upon future plans.

See
Note 2
Page 16

Page 8 of the report under reserves insinuates the town uses its fund balance as a “parking lot” Is it really necessary to make statements like this? We have described what our intentions are, backed them up by review of our minutes, and although a specific 30 year old resolution could not be produced we have had administration and board changes during this time and the funds have never been expended for anything other than its original intended purpose.

We do agree that the report findings were accurate in regards to the lacking long term financial plans and lacking policies to address the fund balances. Although the clear intent was to establish reserve funds for specific purchases to reduce cost to the taxpayer by saving interest and bonding expenses no actual resolution had ever been passed until

recently. We did find the report helpful in regards to awareness of non compliance issues and have since implemented numerous changes to better protect the taxpayers' assets. We however do not agree with the reports language of "failure of the board", "parking lot", and its ability to "sustain operations for nearly two years". The current board and administration has tremendously changed the operation of the town within the last six years to become more transparent by adding a web site containing information such as laws, permits, minutes and contact information. This board has provided evidence of sound practices of getting the best value for its residents by bidding equipment, obtaining quotes, spot checking vendors for fuel and insurance pricing, conducting a loss analysis to determine equipment value and replacement costs, evaluate risk for theft and loss.

I would also like to bring to the attention of the NYS comptroller's office that the state itself has numerous legislative funds that were derived for specific purposes to help or "benefit taxpayers" such as the 911 surcharge funds that have been swept back to the general fund and allocated for purposes other than intended. One would think that this would be in violation of the laws that originally taxed the citizen? Another example a little closer to home is the prison closure funds that were to go back to the affected or should I say impacted communities upon closure of a state prison facility. Madison County to date has received absolutely zero and the State government holds these funds to this day in a decessionary fund. Superfund money derived from spillers of hazardous waste and fines derived from DEC were to help fund NYS Agriculture development, the funds are currently again swept to areas unknown within the state.

Sincerely,

Darrin P. Ball
Town of Lincoln
Supervisor

"This institution is an equal opportunity provider, and employer. To file a complaint of discrimination, write: USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 2025-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD)."

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

Our audit was designed to provide information to Town officials so that they can perform their financial stewardship responsibilities effectively. The term “fault” was not used in our audit report.

Note 2

Although Town officials believe that the highway fund capital reserve was established in the 1980s, there was no indication that the Board ever formally established what it considered to be reserves in the general fund. Furthermore, the use of separate bank accounts to segregate what the Board considers to be reserved should not be a substitution for formally establishing reserve funds. Without formal Board authorization to establish reserves, subsequent administrations could use these moneys for purposes other than what this and previous Boards intended.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our audit objective, we interviewed appropriate Town officials and employees, tested selected records and transactions, and examined pertinent documents for the period January 1, 2012, through December 31, 2012. We extended our review of financial trends back to 2010. Our examination included the following:

- We reviewed the Town's financial records and reports, including budgets and annual reports.
- We analyzed the Town's fund balance for the last three completed years using the Town's Annual Update Documents submitted to the Office of the State Comptroller and the Board-adopted budgets.
- We reviewed the Town's adopted budgets for 2010 through 2012 and compared them to the results of operations for the general and highway funds to determine if the Town's budgets were reasonable.
- We reviewed Board minutes for evidence of the Board's budgeting and monitoring of the budget.
- We interviewed Board members to find out what information is provided to them at budget time to assist them in preparing a budget.
- We interviewed Board members to find out what information is provided to them during the year to monitor the budget.
- We interviewed Town officials to determine if they had a long-term financial and capital plan.
- We interviewed Board members and reviewed Board minutes to determine if there was evidence of the Board's annual audit.

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

APPENDIX D

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Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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