



# Town of Leicester

## Budgeting and Financial Oversight

### Report of Examination

Period Covered:

January 1, 2013 — March 24, 2015

2015M-158



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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

November 2015

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 Leicester, entitled Budgeting and Financial Oversight. 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*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Town of Leicester (Town) is located in Livingston County and includes the Village of Leicester. The Town has an approximate population of 2,200. The Town offers a variety of services to its residents including a Justice Court, fire protection, highway maintenance and improvements, water and lighting services and general government support. The Town finances these services with real property taxes, sales tax, user charges, fines and State aid. The Town's 2015 budgeted appropriations for all funds totaled approximately \$1.2 million.

The Town is governed by an elected Town Board (Board) composed of four Board members and a Town Supervisor (Supervisor). The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor, as the Town's chief executive officer and chief financial officer, is responsible for maintaining the financial records and providing monthly reports to the Board that summarize the Town's financial activities. The accounting function is vital for ensuring the ongoing proper funding and recording of the services the Town provides to its residents. The Town has contracted with a bookkeeping firm (Firm) to assist the Supervisor in performing these duties.

#### **Scope and Objective**

We examined the Town's budgeting and financial oversight practices for the period January 1, 2013 through March 24, 2015. We extended the scope of our audit back to January 1, 2011 to review prior years' financial trends. Our audit addressed the following related questions:

- Did the Board properly budget for and monitor the Town's financial operations?
- Did the Board and Supervisor provide adequate oversight of financial duties and recordkeeping?

#### **Audit Results**

The Board needs to improve its budgeting process to properly budget for and monitor Town financial operations. The Board has not adopted budget policies and procedures or a long-term financial plan to govern the budgeting process or the appropriate level of fund balance to maintain within each fund. Lacking appropriate budgetary guidance, the Board adopted unrealistic budgets that relied heavily on the appropriation of fund balance as a financing source. The Board also did not authorize interfund advances or repay advances within the year they were made with interest, where applicable. For example, during 2013, the Supervisor – on the Firm's advice – made a \$100,000 interfund advance from the town-wide (TW) general fund to the town-outside-village (TOV) highway fund to continue

to pay for TOV highway fund operations. The loan was not authorized by the Board and not repaid by year-end, as required.

At the end of 2014, the TOV highway fund had an accumulated fund balance deficiency of more than \$23,000. The TW general, TW highway, TOV general, water and sewer funds had fund balances that exceeded a reasonable cushion necessary for the next year, ranging from approximately 40 percent to more than 400 percent of the next year's appropriations.<sup>1</sup>

The Board did not provide adequate oversight of the Supervisor's financial and recordkeeping duties. The Board has not adopted investment and procurement policies, as required by General Municipal Law, or ensured that Town officials implemented procedures to govern financial operations. As a result, the Supervisor did not maintain adequate control over the Town's accounting records and adequately oversee the financial duties performed by the Firm. In addition, the Board did not perform annual audits of the books and records of all Town officials and employees who received and disbursed money during the year.

### **Comments of Local Officials**

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

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<sup>1</sup> As of December 31, 2014, available fund balances as a percentage of next year's budget were as follows: TW general fund – 71%, TOV general fund – 449%, TW highway fund – 43%, street lighting fund – 252% and water fund – 98%.

# Introduction

## Background

The Town of Leicester (Town) is located in Livingston County and includes the Village of Leicester (Village). The Town has a population of approximately 2,200. The Town offers a variety of services to its residents including a Justice Court, fire protection, highway maintenance and improvements, water and lighting services and general government support. The Town finances these services with real property taxes, sales tax, user charges, fines and State aid. The Town's 2015 budgeted appropriations for all funds totaled approximately \$1.2 million.

The town-wide (TW) general and highway funds have a tax base that encompasses the entire Town, including the Village. The town-outside-village (TOV) general and highway funds have tax bases that encompass the portion of the Town that lies outside of the Village. The Town also maintains special district funds for its street lighting and water districts, with tax bases that encompass the portion of the Town served by each district.

The Town is governed by an elected Town Board (Board) composed of four Board members and a Town Supervisor (Supervisor). The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor, as chief executive officer and chief fiscal officer, is responsible for maintaining the financial records and providing monthly reports to the Board that summarize the Town's financial activities. The Town has contracted with a third-party bookkeeping firm (Firm) to assist the Supervisor in performing these duties, including preparing the annual budget and filing the annual financial report (AUD) with the Office of the State Comptroller (OSC).

## Objective

The objective of our audit was to evaluate the Town's budgeting and financial oversight practices. Our audit addressed the following related questions:

- Did the Board properly budget for and monitor the Town's financial operations?
- Did the Board and Supervisor provide adequate oversight of financial duties and recordkeeping?

## Scope and Methodology

We examined the Town's budgeting and financial records for the period January 1, 2013 through March 24, 2015. We extended the scope of our audit back to January 1, 2011 to review prior years' financial 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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of  
Local Officials and  
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with the 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.

## Budgeting

It is essential for the Board to establish detailed budgeting policies and a long-term financial plan that help ensure the adoption of realistic and structurally balanced budgets and establish goals for fund balance levels, so that recurring revenues finance recurring expenditures and on-going or long-term financial goals are met. In addition to accurate revenue and expenditure estimates, Town officials must have a reasonable estimate of the fund balance – i.e., the difference between revenues and expenditures accumulated from prior years – that will be available at the end of the current fiscal year when developing the budget.

The Board is responsible for retaining enough surplus fund balance at year-end to provide a reasonable financial cushion for unexpected events and cash flow in the next year. The Board may then appropriate a portion of surplus fund balance as a financing source in the next year's budget to reduce the tax levy. This practice should result in a planned operating deficit (expenditures exceeding revenues) that can be an effective tool to responsibly manage fund balance.

The Board must use accurate fund balance estimates and careful planning to avoid over-appropriating fund balance and potential fiscal stress. New York State Town Law allows the Board to authorize temporary cash advances from one fund to another. Town officials must maintain suitable records and repay each advance as soon as money is available but not later than the close of the year in which the advance is made along with reasonable interest for advances made, between funds supported by different tax bases.

The Board needs to improve its budgeting process to properly budget for and monitor Town financial operations. The Board has not adopted policies and procedures or a long-term financial plan to govern the budget process or the appropriate level of fund balance to maintain in each fund. Lacking appropriate budgetary guidance, the Board adopted unrealistic budgets that relied heavily on the appropriation of fund balance as a financing source. In addition, the Board did not authorize a \$100,000 interfund advance from the TW general fund to the TOV highway fund or ensure this advance was repaid within the year with interest, as required. At the end of 2014, the TOV highway fund had an accumulated fund balance deficiency of more than \$23,000 and the TW general, TW highway, TOV general, water and sewer funds had fund balances that exceeded a reasonable cushion necessary for the next year, ranging from approximately 40 percent to more than 400 percent of the next year's appropriations.



TOV Highway Fund – The TOV highway fund has been struggling with fiscal challenges over the past four years. We reviewed the 2012 adopted budget and found that the Board intended to finance operations using \$2,898 more of fund balance than was available. This fund also incurred unplanned operating deficits from 2011 through 2013 totaling almost \$149,000. The operating deficits were caused primarily by overspending appropriations for CHIPS<sup>2</sup> expenditures for these years. From 2011 through 2014, the Board underestimated intermunicipal revenues, which helped offset some of the expenditure variances, as shown in Figure 1. As a result, the fund reported an accumulated fund balance deficiency in three of the last four years.

<b>Figure 1: TOV Highway Fund, Budget and Operating Results</b>					
	2011	2012	2013	2014	Totals
Budgeted Revenues	\$278,130	\$262,130	\$302,133	\$302,774	<b>\$1,145,167</b>
Actual Revenues	\$290,504	\$345,956	\$326,359	\$325,980	<b>\$1,288,799</b>
Variance	\$12,374	\$83,826	\$24,226	\$23,206	<b>\$143,632</b>
Appropriations	\$278,130	\$267,269	\$302,133	\$302,774	<b>\$1,150,306</b>
Expenditures	\$387,862	\$352,523	\$373,470	\$297,787	<b>\$1,411,642</b>
Variance	(\$109,732)	(\$85,254)	(\$71,337)	\$4,987	<b>(\$261,336)</b>
Operating Surplus (Deficit)	(\$97,358)	(\$6,567)	(\$47,111)	\$28,193	<b>(\$122,843)</b>
Beginning Fund Balance	\$99,599	\$2,241	(\$4,326)	(\$51,437)	
Ending Fund Balance (Accumulated Fund Balance Deficiency)	\$2,241	(\$4,326)	(\$51,437)	(\$23,244)	

During 2013, the Supervisor – on the Firm’s advice – made a \$100,000 interfund advance from the TW general fund to the TOV highway fund to continue to pay for TOV highway fund operations. The loan was not authorized by the Board and not repaid by year-end, as required. Because this loan was made from a fund with a different tax base, a reasonable amount of interest was required to be included when it was repaid. However, the loan was repaid in January 2014, without interest.

In addition, Town officials made other unrecorded and unauthorized interfund advances, which resulted in the TOV highway fund ending the year with an \$8,103 negative cash balance. This occurred because the TOV highway and TW highway funds shared one bank account. Therefore, if one fund did not have enough cash available to pay its expenditures, that fund effectively used the other fund’s surplus cash

<sup>2</sup> The Consolidated Local Street and Highway Improvement Program (CHIPS) was established by the New York State Legislature in 1981 to fund local street and highway improvements.

without a properly recorded and authorized interfund advance. As a result, any TOV highway fund expenditures that were paid after year-end represented unrecorded and unauthorized loans from the TW highway fund and consequently burdened a different tax base. Because the Board and Town officials relied on the Firm for all its financial guidance, they were unaware these unauthorized advances were made and did not fully understand the effect these advances had on the different tax bases.

In 2014, the TOV highway fund incurred an operating surplus because the Board received more revenues than budgeted and stayed within the budgeted appropriations. However the fund still ended the year with an accumulated fund balance deficiency of \$23,244.

Excessive Fund Balances – The Board has not received financial training and did not have a clear understanding about the amount of fund balance or cash balances that were available when it began the budget process. The Firm provided the Board with this information at the end of the budget process. As a result, the Board did not have sufficient information to adopt sound budgets and consistently adopted unrealistic budgets which generated operating surpluses and resulted in accumulating excessive funds in the TW general, TOV general, TW highway, street lighting and water district funds, as shown in Figure 2.

Figure 2: Available Fund Balance at Year-end as a Percentage of the Next Year's Budget										
Year	TW General		TOV General		TW Highway		Street Lighting		Water	
2011	\$183,077	37%	\$49,255	164%	\$130,405	45%	\$19,126	280%	\$60,298	26%
2012	\$221,729	41%	\$48,179	157%	\$113,023	21%	\$19,641	288%	\$67,629	50%
2013	\$231,558	57%	\$56,595	399%	\$71,157	11%	\$19,329	297%	\$84,991	70%
2014	\$303,875	71%	\$66,356	449%	\$125,083	43%	\$16,388	252%	\$96,666	98%

The Board has not formally documented any plans for using these excess funds (in a long-term financial plan or other formal record) or officially substantiated the need for the sizeable fund balances maintained. To the extent that the Board reviews and identifies excess funds in the TOV general fund, it can decide to transfer excess funds to the TOV highway fund to help alleviate its accumulated fund balance deficiency or cover future cash flow or budgetary shortfalls.<sup>3</sup> In addition, the Board could establish reserve funds<sup>4</sup> to save money

<sup>3</sup> The Board may authorize permanent transfers of funds from the general to the highway fund, within the same tax base. However, it may not transfer money from the highway to the general fund.

<sup>4</sup> Reserve funds may be established by Board action, pursuant to various laws, and are used to provide financing for future expenditures for specific purposes, after complying with specific statutory requirements. See our publication entitled *Reserve Funds* available at <http://www.osc.state.ny.us/localgov/pubs/lmgm/reservefunds.pdf>.

for designated future purposes, which could further alleviate the excess fund balances.

The Supervisor told us the Town plans to reduce the TW general fund balance by using a State grant to build a salt storage shed. The Town's share of this project's expenditures would be a maximum cost of approximately \$118,000, if the Town spends the entire amount allowed by the grant. Although the Supervisor stated that the Town is planning to use the water district's excess funds to pay for future infrastructure projects, the Board could more transparently save money for these types of future expenditures by formally establishing and funding reserves.

We reviewed the 2015 budget for the TOV highway fund and found that the Board did not make any significant improvements. The Board continued to underestimate revenues and increased appropriations slightly (almost \$8,000) with a corresponding property tax increase. If Town officials again keep highway spending – specifically, CHIPs expenditures – within budgetary constraints, this fund should incur another operating surplus which will reduce or eliminate the current deficit. If the deficit is not eliminated, the Board should consider making a transfer from the TOV general fund, since the two funds have the same tax base. Further, the Board has not established reserves for the projects it plans to accomplish to officially plan for the use of its excess fund balances. Without more realistic budget estimates and a planned use of the excess fund balance in the other operating funds, we expect these increasing fund balance trends to continue.

## **Recommendations**

The Board should:

1. Develop policies and procedures and a long-term financial plan to govern the budgeting process and establish reasonable levels of fund balance to be maintained in each fund to meet the Town's needs.
2. Adopt budgets with realistic estimates of revenues, expenditures and the amount of fund balance that will be available and used to fund the next year's budget.
3. Consider establishing reserve funds, as part of its long-term planning efforts, to formally and legally set aside funds for identified future expenditures. If establishing reserves, the Board should adopt a reserve policy or plan (or a sufficient comprehensive establishing resolution) to clearly establish the purpose and planned uses and the appropriate funding level of each reserve fund.

4. Attend appropriate training and consider using the numerous training resources available through OSC that can be accessed on our website at <http://www.osc.state.ny.us/localgov/training/index.htm> to help increase its members' understanding of the budget process and the various fund balance components.
5. Approve necessary interfund advances before they are made and ensure they are properly recorded and amounts are paid back with interest, as appropriate, within the year, as required.
6. Better monitor Town funds' financial activity and compare actual revenues and expenditures to budgets throughout the year to prevent over-expenditures and to address revenue shortfalls.

## Financial Oversight

The Board is responsible for the overall management of Town operations in the best interests of the Town and its taxpayers. This responsibility requires the Board to develop a framework of fiscal oversight which includes policies to guide staff in key areas of financial operations and to monitor fiscal operations. Written policies and procedures formally establish and communicate to staff the manner in which to conduct Town day-to-day operations and provide reasonable assurance that Town assets are adequately safeguarded. General Municipal Law (GML) requires the Board to adopt written policies for investments and for procurement.

The Board's responsibilities also include overseeing the Supervisor's financial duties to ensure that the Supervisor maintains accurate and adequate accounting records and conducting the statutorily required annual audits of the financial records of any Town officials and employees who receive and disburse Town money. Annual audits help the Board fulfill its fiscal oversight responsibilities by providing it with an opportunity to assess the reliability of the Town's accounting records and their usefulness for analyzing and addressing the Town's financial condition.

The Supervisor, as chief fiscal officer, should ensure the Town's financial activities are accurately recorded in the accounting records and summarized in monthly financial reports presented to the Board. Monthly reports help the Board monitor and manage the Town's financial operations and assess the Town's financial condition. The Supervisor is also responsible for performing basic accounting functions, which include maintaining the Town's accounting records. If the Supervisor assigns these duties to a Firm, sufficient oversight should be provided to ensure that the records are reliable and up-to-date and that journal entries are approved and made in a timely manner.

The Board did not provide adequate oversight of the Supervisor's financial and recordkeeping duties. The Board has not adopted investment or procurement policies as required by GML or ensured that Town officials implemented procedures to control the Town's financial operations. As a result, the Supervisor did not maintain adequate control over the Town's accounting records and adequately oversee the financial duties performed by the Firm. In addition, the Board did not perform annual audits of the books and records of all Town officials and employees who received or disbursed money during the year.

## Policies and Procedures

In addition to the investment and procurement policies required by GML, the Board should develop written policies for all finance-related areas, including cash management, cash receipts and disbursements, claims processing and auditing, use of credit cards, payroll processing and maintenance of leave records and information technology.<sup>5</sup> The Supervisor is responsible for developing written procedures, as needed, to implement the Board's adopted policies. Such policies and procedures help ensure that duties are clearly assigned and adequately segregated or that compensating controls are in place.<sup>6</sup>

We found that the Board has not adopted adequate financial related policies to ensure Town resources are protected. The Board has not adopted an investment policy or a procurement policy in accordance with GML. In addition, the Board and Supervisor have not adopted policies and procedures governing cash receipts and disbursements, claims processing and auditing, use of credit cards, payroll processing and maintenance of leave records and information technology. The Board also did not ensure Town departments were reconciling their records in a timely manner.

As a result, Town officials and employees lacked established guidance for performing their jobs, financial duties were not adequately segregated and no additional oversight was provided. For example, the appointed Town Clerk collects payments, records transactions and makes adjustments and deposits within a separate bank account without any supervision or independent review of her work. In addition, the water clerk bills customers, collects payments, records accounting entries, deposits money and makes accounting adjustments without any supervision. The water clerk also performs the Justice Court clerk's duties and has full control over all aspects of the Justice Court operations with little supervision by the Justices. The Board is responsible (in part through the annual audit function) to ensure that the Justices have implemented adequate internal control over the Court's operations.

Because bank reconciliations or accountability analyses were not performed for Clerk or Justice Court activities in 2014, we performed accountability analyses for the Clerk's account for the period June 2014 through November 2014 and Justice Court accounts for the period May 2014 through October 2014 and identified immaterial

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<sup>5</sup> See the publications issued by OSC entitled, *Fiscal Oversight Responsibilities of the Governing Board and Information for Town Officials* available at <http://www.osc.state.ny.us/localgov/pubs/publisting.htm>.

<sup>6</sup> When one individual control all phases of a transaction, duties should be segregated. When segregating duties is not feasible, additional oversight should be provided. See our publication entitled *The Practice of Internal Controls* available at [http://www.osc.state.ny.us/localgov/pubs/lgmg/fiscal\\_oversight.pdf](http://www.osc.state.ny.us/localgov/pubs/lgmg/fiscal_oversight.pdf).

discrepancies that we discussed with Town officials. We also reviewed the water clerk's billing and collections for the last two completed billing periods<sup>7</sup> and found that collections were recorded in customer accounts and appropriately deposited. However, we identified 17 water customer accounts totaling \$1,427 that should have been relieved in 2015 but were not.

Had the Board adopted and implemented adequate policies and procedures over the Town's financial operations and segregated duties, where feasible, or had Town officials provided more oversight, these errors could have easily been detected and corrected. However, without such policies and procedures, the Board cannot be certain that all financial transactions are properly processed and recorded or that resources are properly safeguarded and used for necessary and authorized Town purposes.

## Supervisor's Records

The Supervisor is responsible for collecting, receiving, safeguarding, maintaining custody of and disbursing all Town money. The Supervisor is also responsible for keeping accurate and complete accounting records using double-entry bookkeeping and preparing and maintaining general ledger accounts for all assets, liabilities, revenues and expenditures, in accordance with the current financial resources measurement focus and modified accrual basis accounting system<sup>8</sup> prescribed by OSC.

The accounting function is vital for ensuring the ongoing proper funding and recording of the services the Town provides to its residents. Therefore, the Supervisor must ensure that the financial records are complete, accurate and up-to-date to be relevant and useful for managing Town operations and must present detailed monthly financial reports to the Board. In addition, Town Law requires that the Supervisor's records be open and available for public inspection at all reasonable hours of the day. Thus, it is essential, when the Supervisor chooses to delegate accounting duties, that adequate controls are put in place to ensure the agreed-upon duties are effectively performed.

The Board did not ensure that the Supervisor adequately performed her duties. The Supervisor did not have adequate control of the Town's accounting records or appropriately monitor the Firm that performed

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<sup>7</sup> July 2014 and October 2014 billing cycles

<sup>8</sup> Under the current financial resources measurement focus and modified accrual basis of accounting, revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for interest on general long-term liabilities, which should be recognized when due. See our publication entitled *Accounting and Reporting Manual* available at <http://www.osc.state.ny.us/localgov/pubs/arm.pdf>.

a majority of these financial duties. The Town's accounting records were maintained and kept at the Firm's office located in another town and, thus, the records were not readily available for review as required by Town Law. For example, as of January 2015 the 2013 records had not been returned to the Town hall.

The Firm maintains accounting records; prepares and prints Town checks; processes the Town payroll, including direct deposits; files the Town's payroll reports with government agencies; and prepares bank reconciliations and all financial reports with little to no oversight from the Supervisor. Because the Supervisor does not review the bank reconciliations, there is an increased risk that the Firm could initiate and fail to record certain financial transactions and then conceal its actions during the reconciliation process. The Firm also does not use a double-entry accounting system, maintain general ledgers or prepare journal entries to adequately record financial transactions.

Lacking an adequate governmental accounting system, the Firm maintained a separate spreadsheet to produce monthly financial reports independent of its computerized accounting program (Program).<sup>9</sup> However, the two accounting records did not agree with each other or with the Town's AUD. In addition, the Firm did not provide the Board with any information on the trust and agency (TA) fund. We also found significant errors and improper accounting practices by the Firm including inaccurate reporting of accounts payable and duplicate monthly transfers to the TA fund bank account for Town employees' share of health insurance, which resulted in over-reported expenditures, unauthorized interfund advances and an unaccounted for cash balance in the TA fund, which can be highly susceptible to misappropriation or abuse. We discussed various other accounting errors and deficiencies with Town officials.

Because the Supervisor did not maintain adequate control over the financial records and adequately oversee the Firm while it performed her financial duties, there is an increased risk that errors or irregularities could occur and not be detected or corrected. Furthermore, because the Board has not provided appropriate guidance and oversight, it does not have the accurate financial information necessary to make informed decisions.

## Annual Audit

According to Town Law, by January 20th of each year, each Town officer or employee who received or disbursed money on the Town's behalf in the previous year must provide an accounting to the Board and produce all books, records, receipts, vouchers and canceled

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<sup>9</sup> Because the Program was only used to record actual revenues and expenditures on a cash (not modified accrual) basis, the Firm maintained a separate spreadsheet to provide monthly budget-versus-actual figures and balance sheet reports.



checks for audit. The Board is required to annually audit, or engage an independent accountant to audit, these records. The annual audit's purpose is to provide assurance that public funds are handled properly, to identify conditions that need improvement and to provide oversight of the Town's financial operations. The Board should ensure that the completion and results of the audit are included in its meeting minutes and that documentation is filed detailing how the audit was performed and the records that the Board reviewed.

The Board did not audit the records of Town officers and employees that collected and disbursed Town money for 2014 activity. Although the Board did complete an audit of the 2013 Justice Court records, its audit was not performed until November 2014, and we found the audit was not adequate. The Supervisor told us the Board's audit consisted of reviewing the total Justice Court fines collected and the amounts deposited. However, there was no available documentation provided to us to show an audit had been performed or that identified the procedures followed.

Without annual audits, the Board's ability to monitor the Town's financial operations is severely diminished. Annual audits would have enabled the Board to identify and address the deficiencies identified in this report in a timely manner.

## **Recommendations**

The Board should:

7. Adopt investment and procurement policies and implement other policies and procedures over key financial duties to better segregate job duties, which include compensating controls when segregating duties is not feasible.
8. Annually audit, or cause an audit of, the books and records of the Supervisor and all other officers and employees who received or disbursed money during the preceding year. Audit results should be documented in the Board minutes and include a description of the records reviewed and the procedures performed.

The Supervisor should:

9. Adequately oversee the Firm and routinely review its work to ensure complete, accurate and up-to-date accounting records are available that contain the information needed to reflect the Town's financial position and results of operations as prescribed by OSC.

10. Ensure that all financial records are kept at Town offices and are readily available for public inspection, as required.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

# Town of Leicester

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P.O. Box 197

Leicester, New York 14481-0197

Phone: 585-382-3231

Fax: 585-382-9766

## SUPERVISOR

LISA SEMMEL

## TOWN CLERK

Mary Yasso

## COUNCILPERSONS

David Fanaro

Matt Durbin

Joni Santucci

Karen Roffe



## HIGHWAY SUPERINTENDENT

Russell Page

## JUSTICES

Rich White

Henry C. Smith

## COURT CLERK

Sue Kelly

## CODE ENFORCEMENT OFFICER

Dean O'Keefe

## ASSESSOR

Gregg H. Torrey

Town of Leicester, audit response letter.

### OSC recommendations

1. The Leicester Town board is working on developing policies and procedures and long term financial plans to help govern the budgeting process. we are also working on establishing reasonable levels of fund balance to help meet the Town's needs. It is our plan to have them in place with a proper time line of completion when we submit our CAP.

2. I (We) have worked very diligently over the last couple years with more realistic estimates of revenues, expenditures and the amount of fund balance. As the Town Supervisor I acquired my first budget from the former Supervisor and as you can see as far as the TOV Highway I was not left in good shape. Since then due to working with the FIRM and the Highway Superintendent we have gotten ahold of the spending in that department turned it around. We will continue to work in that fashion.

3. The Board is working on establishing reserve funds policy as part of our long-term planning. We plan to be able to define the time line for that to be completed in our CAP.

4. The FIRM has met with the Town Board and gone over the monthly budget, many questions were asked and they seem to have a better understanding. They will be encouraged to access your website and take any training available.

5. The interfund transfer was made with Board approval, it was done in executive session and when we came out of session and back in regular session the course of action was not documented. This happened in the month of November due to the fact that our CHIPS money had not been received. We did receive those funds in December but did not return the borrowed amount till January due to the fact that we still had to run the TOV Highway Department. It was not our understanding that we needed to charge ourselves interest, I have notified the FIRM of this and if it ever happens in the future interest will be charged.

6. The Board is actively working on monitoring the Towns revenues and expenditures. Since meeting with the FIRM and getting a better understanding of the budget and monthly report. We are able to prevent over-expenditures.

7. The Town Board is working towards adopting investment and procurement policies, this time line will also be given when we submit our CAP.

8. Guidelines on auditing all books and records of the Supervisor and all offices and employees who receive or disburse are being established so proper procedures can be followed.

9 and 10. The Supervisor is receiving all accounting records from the FIRM, also now able to go online and review the most up to date account balances. Copies of such records are kept on hand in the Supervisors office and available to the clerk at all times.

Lisa Semmel  
Town Supervisor  
September 30, 2015

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the Town's budgeting and financial oversight practices for the period January 1, 2013 through March 24, 2015. We extended our scope back to January 1, 2011 to review prior years' financial trends. To achieve our objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed Town officials and employees to gain an understanding of financial operations and the budgeting process.
- We reviewed the Town's policies and Board meeting minutes and resolutions.
- We analyzed fund balance for the period 2011 through 2014. We also compared budgeted revenues and appropriations to actual operating results for 2011 through 2014 for the major operating funds.
- We reviewed the Town's adopted budgets for 2011 through 2015 to determine the amount of fund balance appropriated.
- We compared revenue and expenditure accounts and balance sheet account balances filed in the 2013 AUD to records provided by the Firm to verify the reliability of financial data.
- We reviewed interfund advances and transfers for 2011 through 2014.
- We reviewed the Town's accounting records to determine whether they were maintained in the format prescribed by OSC.
- We reviewed the monthly financial reports provided to the Board during the audit period to determine adequacy.
- We reviewed supporting documentation for receivables and payables reported on the Town's 2013 AUD to determine whether the amounts were accurately recorded and supported.
- We reviewed bank reconciliations and performed accountability analyses from June 2014 through November 2014 for the Clerk, from April 2014 through October 2014 for the water clerk and from May 2014 through October 2014 for Justice Court clerk activities.

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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