



Town of Tyrone

Financial Management

Report of Examination

Period Covered:

January 1, 2010 — September 26, 2014

2014M-343



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 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 Tyrone, 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 Tyrone (Town) is located in Schuyler County, covers approximately 40 square miles and serves approximately 1,600 residents. The Town provides services for its residents, including highway maintenance, snow removal, code enforcement, fire protection and general government support. The Town's total budgeted appropriations for the 2014 fiscal year were approximately \$1.2 million, funded primarily with real property taxes, sales tax and State aid.

The Town is governed by an elected Town Board (Board), comprising a Supervisor and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor serves as the chief executive officer and chief fiscal officer (CFO). As CFO, the Supervisor is responsible for receiving, disbursing and maintaining custody of Town moneys, maintaining accounting records and providing financial reports to the Board. The Supervisor also serves as the Town's budget officer. The prior Supervisor was elected to a four-year term beginning January 1, 2011, but he resigned effective December 31, 2013. The current Supervisor was appointed to a one-year term for 2014.

Objective

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

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

Scope and Methodology

We examined the Town's fiscal operations for the period January 1, 2010 through September 26, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

Comments of 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 findings and indicated they are in the process of taking corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and

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

Financial Management

The Board is responsible for the Town's financial oversight. To properly oversee the Town's financial operations, the Board must adopt structurally balanced budgets for all operating funds that provide for sufficient revenues to finance recurring expenditures. Monitoring the budget against actual results of operations during the year is a critical part of the Board's budgeting responsibilities. In addition, the Board should adopt a multiyear financial plan to identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. Finally, the Board must annually audit the financial records of any employee or official who receives or disburses cash.

The Board did not properly oversee the Town's financial operations. The Board and Town officials have not developed multiyear financial plans, policies or procedures to govern budgeting practices or the level of unexpended surplus funds to maintain. Lacking an established financial plan and budgetary guidance, the Board adopted budgets that were not based on sound and realistic estimates of revenues and expenditures and appropriated fund balance based on the former Supervisor's estimates without ensuring funds were available. Poor budgeting, along with overspending in the highway fund, has caused cash flow problems, which required interfund transfers and advances from the general fund to pay bills over the last several years. The Board's continued reliance on using money from the general fund to pay highway fund bills has caused the Town's overall financial condition to be volatile in the last four years. Finally, the Board has not provided sufficient oversight to Town departments collecting and disbursing cash by performing an annual audit.

Budgeting

It is important for the Board to adopt realistic budgets and closely monitor them against actual revenues and expenditures regularly throughout the year. The annual budget is a plan that provides Town officials with the information necessary to control Town spending and ensure that revenue projections are being met during the year. Key components to budget preparation require ensuring that contingencies are identified and addressed and that fund balances are computed accurately. The budget identifies the cost of services to be provided to citizens in the coming year, the sources of financing for those services and how the two components are balanced. Effective budgetary controls ensure that these objectives are met within established spending limits. The prudent use of surplus fund balance as a funding source to reduce the level of real property taxes needed to finance operations is a basic component of local government budgeting. However, Town officials should avoid relying on the

availability of surplus fund balance as a recurring revenue source to finance recurring expenditures, which ultimately depletes fund balance below a reasonable level, leaving no financial cushion if unforeseen expenses arise.

The Board adopted budgets that were not based on sound and realistic estimates of revenues and expenditures and appropriated fund balance based on the former Supervisor's estimates without ensuring that funds were available. This happened because the Board has not developed policies or procedures to govern budgeting practices or the level of unexpended surplus funds to maintain. Effective control of the budget was further hampered by the Board's lack of training and reluctance to hold highway fund expenditures to the adopted amount or amend the budget properly. This resulted in operating deficits, cash flow problems and a lack of transparency on actions taken to provide the highway fund with resources to pay its obligations.

The Board's budgeting process over the last four years included meetings with the Highway Superintendent (Superintendent) to obtain his projected highway expenditures for the upcoming year and with the former Supervisor who provided budget estimates and the amount of fund balance available for use as a funding source. During our discussion with Board members, we found that they were not familiar with fund balance terminology and have not attended financial training that would provide them the skills to budget effectively. As a result, the Board continually planned operating deficits¹ in both the general and highway funds by adopting budgets that did not provide sufficient revenues to fund expenditures and routinely relied on appropriated fund balance to finance operations. In some years, the Board adopted budgets that included the appropriation of more fund balance than was available.

Furthermore, although the Supervisor provided Board members with monthly budget status reports (i.e., budget-to-actual comparisons), the highway fund appropriations were over-expended in every year except one. By allowing the Superintendent to continually overexpend his budget, the general fund has had to make interfund transfers and advances² to cover the excess costs. These interfund transfers caused the general fund to experience operating deficits in two of the last four years. Figures 1 and 2 illustrate the Board's poor budgeting practices.

¹ A planned operating deficit occurs when a board intentionally adopts a budget in which appropriations exceed budgeted revenues, with the difference to be made up by the appropriation of unrestricted fund balance.

² Transfers are operating subsidies from one fund to another for which there is no expectation the subsidies will be repaid; advances are loans between funds with the expectation the loans will be repaid.

Figure 1: General Fund Budget-to-Actual and Operating Results

	2010	2011	2012	2013	Total
Budgeted Revenues	\$232,510	\$261,075	\$274,825	\$277,600	\$1,046,010
Actual Revenues	\$242,802	\$333,202	\$277,603	\$293,578	\$1,147,185
Variance	\$10,292	\$72,127	\$2,778	\$15,978	\$101,175
Appropriations	\$297,510	\$296,075	\$309,325	\$290,725	\$1,193,635
Expenditures	\$293,672	\$260,218	\$232,118	\$242,454	\$1,028,462
Variance	\$3,838	\$35,857	\$77,207	\$48,271	\$165,173
Interfund Transfers Out ^a	\$77,000	\$41,000	\$48,023	\$25,459 ^b	\$191,481
Operating Surplus/(Deficit)	(\$127,870)	\$31,984	(\$2,538)	\$25,665	(\$72,758)
Beginning Fund Balance	\$151,671	\$23,801	\$55,785	\$53,247	
Ending Fund Balance	\$23,801	\$55,785	\$53,247	\$78,912	
Budgeted Fund Balance Appropriation	\$35,000	\$35,000	\$13,125	\$30,952	
Allowable Fund Balance Appropriation	\$23,801 ^c	\$35,000	\$13,125	\$30,952	

^a None of the interfund transfers were part of the adopted budget, but were necessary to pay bills in the highway fund.
^b The Board incorrectly budgeted for highway employee retirement costs in the general fund and this transfer was to correct the budgeting error.
^c The budget included a fund balance appropriation of \$35,000, but only \$23,801 was actually available; therefore, the adopted budget was not structurally balanced.

The Board overestimated general fund appropriations over the last four years by a total of \$165,173, or 14 percent. Revenues were accurately estimated in three of the four years; however, sales tax revenues were underestimated in 2011. Although the Board’s adopted budgets planned for operating deficits, appropriated fund balance was not needed to fund operations in the general fund during the three-year period from 2011 through 2013. However, because the Board allowed the Superintendent to make expenditures in excess of the highway budget and available highway fund resources, the former Supervisor made transfers absent Board approval to the highway fund from the general fund totaling \$191,481.

As a result of these unplanned transfers, the general fund incurred operating deficits in 2010 and 2012. For example, the transfer of \$77,000 to the highway fund in 2010 was to cover CHIPS³ revenues that were not received. This was due to the untimely submission of claims by the Superintendent, along with the planned use of \$65,000 in fund balance to finance 2010 general fund appropriations. This almost completely used the general fund’s fund balance, leaving it insufficient to cover the amount appropriated for use in the 2011 budget. While the balance in the general fund has slightly increased over the last three years, the continuous reliance on fund balance to finance recurring expenditures and unbudgeted transfers to the highway fund can eliminate this small surplus quickly.

³ Consolidated Local Street and Highway Improvement Program paid through New York State

The Board's 2014 budget was also inaccurate. As of August 31, 2014, total appropriations and revenues were underestimated, which will result in a small operating deficit. We project that the general fund will end 2014 with an unrestricted fund balance close to \$66,000, as long as expenditures remain within appropriations.

Figure 2: Highway Fund Budget-to-Actual and Operating Results

	2010	2011	2012	2013	Total
Budgeted Revenues	\$665,800	\$670,000	\$717,000	\$725,975	\$2,778,775
Actual Revenues	\$552,543	\$821,322	\$741,212	\$804,154	\$2,919,231
Variance	(\$113,257)	\$151,322	\$24,212	\$78,179	\$140,456
Appropriations	\$690,500	\$705,000	\$747,000	\$778,250	\$2,920,750
Expenditures	\$668,207	\$796,621	\$798,349	\$845,768	\$3,108,945
Variance	\$22,293	(\$91,621)	(\$51,349)	(\$67,518)	(\$188,195)
Interfund Transfers In	\$77,000	\$41,000	\$48,022	\$25,458	\$191,481
Operating Surplus/(Deficit)	(\$38,664)	\$65,701	(\$9,115)	(\$16,156)	\$1,767
Beginning Fund Balance	\$16,402	(\$22,262)	\$43,439	\$34,324	
Ending Fund Balance	(\$22,262)	\$43,439	\$34,324	\$18,168	
Budgeted Fund Balance Appropriation	\$35,000	\$30,000	\$52,275	\$73,450	
Allowable Fund Balance Appropriation	\$0	\$30,000	\$34,324	\$18,168	

The Superintendent overspent the highway fund budget by \$210,488 over the last three years, and the Board underestimated revenues by \$140,456 over the last four years. The significant revenue variances in 2010 and 2011 were due to the Superintendent failing to ensure the timely submission of the 2010 CHIPS claims, which resulted in both the 2010 and 2011 CHIPS revenues being received in 2011. CHIPS funds were also underestimated by approximately \$36,000 in 2013. In addition, the Board appropriated more fund balance than what was available for use in three of the last four budgets, which would result in an accumulated fund deficit in those years if used.

We discussed the highway fund deficit with Board members and determined this occurred because the Board lacked a firm understanding of estimating available fund balance and relied on the former Supervisor for these figures and the preliminary budget estimates. Had the Board adequately ensured fund balance was available prior to its appropriation, they would have been in a better position to identify additional revenues and/or raise enough taxes to pay for appropriations. Further, if the Board had ensured the Superintendent did not over expend his budget appropriations, it would not have been necessary to rely on annual interfund transfers or advances from the general fund.

Our review of the 2014 budget-to-actual report dated August 31, 2014 shows that the Board again underestimated revenues and appropriations. Furthermore, the highway fund lacked sufficient cash to pay its bills for the rest of the year (see the Cash Flow and Interfund

Advances section). As a result, the Board made the decision to lay off two highway employees in order to cut costs for the remainder of the year. We project that the highway fund will end the 2014 fiscal year with an operating surplus and its fund balance will be approximately \$50,000, as long as the Board ensures that the budget is not overspent and anticipated revenues come in as expected.

We reviewed the 2015 budgets and found that the Board did not appropriate fund balance in the general or highway funds. The Board plans to adopt a structurally balanced budget and stay within the allowable tax levy limit.

Cash Flow and Interfund Advances

An essential component of financial condition is ensuring that sufficient cash resources are available to pay vendors in a timely manner and meet payroll obligations. At a minimum, the Town should have enough residual cash at any one time to pay its bills and meet payroll over a 30-to-60 day period. To ensure that cash is available as needed, Town officials should develop cash-flow projections⁴ to help identify potential cash deficiencies. When a fund does not have sufficient cash to meet its current obligations, governing officials are often forced to explore options such as obtaining loans (advances) from other funds or other authorized short-term borrowing options. General Municipal Law (GML) authorizes a town to temporarily advance funds that are not immediately needed in one town fund to any other town fund. GML requires that such interfund advances be authorized in the same manner as budgetary transfers and that repayment be made by the close of the fiscal year in which the advances were made. Interfund advances are different from interfund transfers in that interfund transfers occur between funds with the same taxpayer base and the transfers are not considered a loan that requires repayment.

Town officials did not prepare cash flow and fund balance projections to help determine whether adequate moneys would be available to meet required cash outlays when preparing the budgets. Furthermore, the Board allowed the Superintendent to overexpend his budget appropriations and available revenues, which contributed to the highway fund's ongoing cash flow issues. To address periodic cash deficiencies, the Town began using interfund advances from the general fund in late 2013, instead of continuing to provide interfund transfers. For example, the highway fund ran out of cash to pay its bills in October 2013. As a result, on October 8, 2013, the Board approved a \$15,000 advance from the general fund to the highway fund. However, the former Supervisor advanced a total of \$39,500 through two transfers during the month, which was more than double

⁴ OSC has developed a tutorial to help local governments prepare cash flow projections at <http://www.osc.state.ny.us/localgov/training/modules/cashmgmt/four/index.htm>

what the Board authorized. This amount was repaid to the general fund by the current Supervisor on January 13, 2014.

The highway fund ran out of cash again in August 2014, because the Board failed to ensure sufficient revenues and fund balance would be available to pay operating expenditures during the second half of the year. For example, the Board allowed the Superintendent to pay cash in the amount of \$20,820 for a bulldozer and \$33,250 for a pickup truck during the first half of the year. Although these purchases were incorporated into the budget, the highway fund did not have sufficient revenues to provide the resources to pay for the equipment until later in the year. As a result, the Board approved advances totaling \$70,000 from the general fund to the highway fund. We projected the Town's revenues and expenditures for both funds through year end and found that these advances would be sufficient to pay the highway fund's bills and the loan could be paid back by the end of the year if planned revenues were received timely and in the amount anticipated. However, we advised the Board and Town officials that they must closely monitor the two largest variables in our projection: CHIPS and sales tax revenue.

- CHIPS – On September 18, 2014, we discussed the financial condition of the highway fund with the Superintendent and asked if all CHIPS expenditures had been made and paid, so that the last CHIPS draw of approximately \$64,000 could be received in December 2014.⁵ In response, the Superintendent produced an invoice for the amount of \$65,189, dated July 23, 2014, which had not yet been submitted to the Town Clerk for inclusion on an abstract because the highway fund didn't have sufficient cash to pay it. We advised the Board that they must be prudent in the timing of this payment by considering the other required highway fund expenditures and the repayment of advances. Subsequent to fieldwork, the Board approved and paid this bill in October 2014 and should receive their CHIPS draw in December as expected.
- County Sales Tax – The Board budgets for and records County sales tax revenues on a cash basis, which means the Town will collect and record the fourth quarter payment from the prior year and the first three quarterly payments from the current year. Subsequent to fieldwork, as of October 30, 2014, the Town had collected the prior year fourth quarter and current year first and second quarter payments. The current

⁵ There are four claim and payment periods for CHIPS funds per fiscal year. The remaining draw for the Town's fiscal year will be paid by the State Comptroller's Office on December 15, 2014.

Supervisor expects to receive the 2014 third quarter payment of approximately \$91,000 in the beginning of November 2014.

As a result of the Town officials' failure to monitor cash and fund balance, the Town has experienced periods of financial strain during each of the last four years. After reviewing the 2015 budget, we cautioned Town officials to be cognizant of the payment of expenditures with the receipt of anticipated revenues, as we anticipate another potential cash flow problem in the fourth quarter of 2015.

Multiyear Financial Planning

Multiyear financial planning is a vital tool for local governments to improve financial operations. Planning on a multiyear basis allows Town officials to identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. It also allows them to assess the impact and merits of alternative approaches to address financial issues, such as the use of fund balance to finance operations and the accumulation of money in reserve funds. 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 has not developed a written multiyear financial plan. Such a plan would be a useful tool for the Board to address the Town's declining fund balances and to plan for and finance improvements. In developing a plan, the Board must address the amount of fund balance available for appropriation to reduce ensuing years' taxes, while maintaining an amount of reasonable unassigned fund balance to provide a cushion for unforeseen expenditures or revenue shortfalls. It is evident that, without this plan, the Board has not prudently used or reserved fund balance to ensure adequate levels are maintained for future sustainability. The sooner the Board develops a plan, the sooner the Town will be able to begin to recover financially.

Annual Audits

New York State Town Law requires the Board to perform an annual audit of the books and records of any official or employee who receives or disburses cash, within 20 days after the year end, unless the Town has planned an annual audit by a public accountant. An annual audit provides the Board with the opportunity to monitor financial records and procedures. The audit of these records and reports is an important internal control function providing independent verification that the records are maintained in accordance with established procedures, transactions are properly recorded and cash is properly accounted for.

The Board did not perform required annual audits of the records of any department collecting money. Therefore, the Board's ability to monitor the Town's financial operations is severely diminished.

Recommendations

The Board should:

1. Develop fiscal policies that include determining the level of fund balance that must be maintained for sufficient cash flow and other purposes.
2. Develop structurally balanced budgets and a formal, comprehensive multiyear plan for restoring fund balance in the general and highway funds and resolving the cash-flow deficiencies of the highway fund.
3. Better monitor Town funds' financial activity and compare actual revenues and expenditures to budgets throughout the year to prevent overexpenditures and to address unanticipated revenues or revenue shortfalls.
4. Attend training and/or review available OSC publications to assist in the budgeting and monitoring process.
5. By January 20 of each year, conduct an effective audit of the records and reports of the Town Clerk and Town Justices or hire an independent auditor to do so, as required by law.⁶

The Supervisor should:

6. Not make cash advances in excess of those that are Board-approved.
7. Prepare monthly cash flow projections and provide them to the Board to assist it in making informed financial decisions.

⁶ For guidance on conducting annual audits, Town officials should refer to the OSC publication *Local Government Management Guide – Fiscal Oversight Responsibilities of the Governing Board*.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Donald J. Desrochers
Supervisor

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**OFFICE OF THE SUPERVISOR
TOWN OF TYRONE**

February 9, 2015

Edward V. Grant, Jr.
Chief Examiner
Division of Local Government
and School Accountability

Office of the State Comptroller
The Powers Building
16 W. Main Street, Suite 522
Rochester, NY 14614

Re: Town of Tyrone Audit - Preliminary Draft Findings

Dear Chief Examiner Grant:

The preliminary audit results have been reviewed and discussed with the Board. We concur with the audit recommendations and will be developing a detailed Corrective Action Plan (CAP) to be submitted within 90 day of the release of the Final Audit Report. As requested in your letter dated January 26, 2015, please find the following responses to your preliminary draft findings.

Recommendation 1: The Board should develop fiscal policies that include determining the level of fund balance that must be maintained for sufficient cash flow and other purposes.

Response 1 : The Board and Supervisor recently attended a "Financial Responsibilities of Elected Officials" program to learn more about planning and budgeting.

Recommendation 2: The Board should develop structurally balanced budgets and a formal, comprehensive multiyear plan for restoring fund balance in the general and highway funds and resolving the cash-flow deficiencies of the highway fund.

Response 2: The Board and Supervisor recently attended a "Financial Responsibilities of Elected Officials" program to learn more about planning and budgeting.

Recommendation 3: The Board should better monitor Town Funds' financial activity and compare actual revenues and expenditures to budgets throughout the year to prevent overexpenditures and to address unanticipated revenues and revenue shortfalls.

Response 3: The Board and Supervisor recently attended a “Financial Responsibilities of Elected Officials” program to learn more about accounting, auditing, and financial reporting. In addition, the Board is forming a committee to generate policies aimed at making the Highway Superintendent accountable to staying within the Highway Budget.

Recommendation 4: The Board should attend training and/or review available OSC publications to assist in the budgeting and monitoring process.

Response 4: The entire Board and Supervisor attended a program to learn more about planning, budgeting, accounting, auditing, and financial reporting for elected officials.

Recommendation 5: The Board should by January 20 of each year, conduct an effective audit of the records and reports of the Town Clerk and Town Justice or hire an independent auditor to do so, as required by law.

Response 5: The Board plans to audit records and reports of the Town Clerk, Town Justice and the Town supervisor before or at the March 2015 Board meeting. In future years, the Board will comply with the January 20 deadline.

Recommendation 6: The Supervisor should not make cash advances in excess of those that are Board-approved.

Response 6: The Supervisor during 2014 and the current Supervisor seek Board approval for all cash advances and amounts.

Recommendation 7: The Supervisor should prepare monthly cash flow projections and provide them to the Board to assist it in making informed financial decisions.

Response 7: The Supervisor will provide monthly cash flow projections to the Board so it can make informed financial decisions.

The Town of Tyrone will continue to strive for improvement in areas noted in the Preliminary Audit Report. Please feel free to contact me if you have any questions related to our responses.

Respectfully Submitted,

Donald J. Desrochers

Supervisor and Chief Financial Officer

Cc: Board members

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To focus our audit on those areas most at risk, we performed an initial assessment of the following areas: financial oversight, cash receipts and disbursements, payroll and personal services and information technology. During the initial assessment, we interviewed appropriate Town officials, performed limited testing of transactions and reviewed pertinent documents, such as Board minutes, financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of fraud, theft or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas at most risk. We selected the Board's financial management for further audit testing.

To accomplish our objective, we interviewed appropriate Town officials and employees, tested selected records and examined pertinent documents for the period January 1, 2010 through September 26, 2014.

Our audit included the following steps:

- We interviewed appropriate Town officials to gain an understanding of financial operations and budgeting process.
- We reviewed the Town's adopted budgets for 2010 through 2015 to determine the amount of fund balance appropriated.
- We reviewed the Town's budget-to-actual variances for 2010 through 2013 to determine if the variances were significant.
- We reviewed Board minutes and resolutions regarding financial decisions and budget modifications.
- We reviewed bank reconciliations for the month of August 2014.
- We reviewed interfund advances and transfers for 2010 through September 26, 2014.
- We performed a cash flow analysis through the end of the 2014 fiscal year, starting with actual revenues and expenditures as of August 31, 2014, remaining budget appropriations and discussions with the Supervisor.

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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