



# Town of Ticonderoga

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## Capital Project Management

**2023M-38 | August 2023**

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# Report Highlights

## Town of Ticonderoga

### Audit Objective

Determine whether the Town of Ticonderoga (Town) Town Board (Board) provided adequate oversight and management of capital projects.

### Key Findings

The Board did not provide adequate oversight and management of capital projects. As a result, Town officials did not:

- Monitor capital projects activity for eight projects reviewed, with Board-authorized budgets totaling \$20.8 million, to ensure that costs were kept within the authorized budget.
- Maintain complete and adequate capital project accounting records or prepare monthly itemized capital project budget-to-actual reports for the Board. For example, budget modifications totaling \$3.2 million were not recorded in the accounting records.
- Close seven completed capital projects in the accounting records.

While we did not observe any instances where a project's authorized budget was exceeded, without adequate procedures for monitoring all capital project expenditures, there is an increased risk of recording errors going undetected and exceeding the project budget and authorized financing.

### Key Recommendations

- Monitor capital projects activity by requiring reports on a monthly basis.
- Maintain complete and accurate accounting records and provide monthly reports to the Board to monitor budget-to-actual project activity.
- Close completed capital projects in a timely manner.

Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

The Town is located in Essex County and is governed by the elected five-member Board, including the Town Supervisor (Supervisor). The Board is responsible for the general oversight of Town operations and finances. The Supervisor is the chief executive and chief fiscal officer.

The Board is responsible for overseeing capital projects, including awarding contracts, authorizing contract amendments and change orders and approving claims. The Town had 22 active projects recorded in the accounting records as of September 30, 2022. The capital projects are funded by grants, Environmental Facilities Corporation loans and Town funds.

#### Quick Facts

Reported Open Capital Projects	22
Total Capital Project Expenditures for Recorded Open Projects	\$43.5 Million

### Audit Period

January 1, 2021 through September 30, 2022. We extended our audit scope back to November 29, 2018 to determine whether capital projects were properly accounted for and closed upon completion.

# Capital Project Management

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## How Should a Board Properly Plan, Authorize and Monitor a Capital Project?

A governing board is responsible for the oversight of capital projects, including ensuring that projects are properly planned, authorized and managed, funding is authorized and costs are kept within the approved budget. Effective oversight includes monitoring the capital project during construction to ensure the project is progressing within the expected time frame, expenditures do not exceed the budget for each phase, the work performed is in compliance with design and expected quality and the work is performed in compliance with State or federal laws. The board and town officials should monitor the progress and implement necessary changes to ensure the project is completed in the most cost-effective manner. Proper planning of a capital project requires that the board have a thorough understanding of the project's overall scope and estimated cost before authorizing the project. Initial estimated costs must be realistic so a board can plan the project's financing and keep the taxpayers informed.

Part of a board's management responsibility is to adopt itemized capital project budgets that include the anticipated funding sources and estimated expenditures, review financial activity at least monthly and complete a final accounting and closeout of each project.

A supervisor is responsible for properly recording the project budget and subsequent financial activities in the capital projects fund. If the supervisor assigns these duties to a bookkeeper, the supervisor maintains the responsibility for the accuracy and timeliness of the financial records. As such, the supervisor should provide sufficient oversight to ensure the bookkeeper maintains suitable records, documents financial information accurately and timely and provides useful reports to the board. Each project requires its own set of accounting records to document the project's complete financial history, which may span several fiscal years.

To adequately monitor the project, the board should receive and review monthly budget-to-actual financial reports to ensure funds are available for project expenditures, contracts are being followed and costs are within budget. In addition, the board should receive other meaningful reports that include the percentage of project completed compared to the initial project timeline and significant changes to a project's scope or cost. Accurate project status reports provide the board with a reliable mechanism to ensure that projects are properly planned and managed, project funding is authorized and costs are kept within the approved budget while minimizing the possibility of cost overruns that could negatively impact finances.

## Capital Projects Were Not Adequately Monitored

As of September 30, 2022, the Town’s accounting records contained 22 capital project funds with expenditures totaling \$43.5 million. We examined capital project records, including board resolutions, construction progress reports, accounting records, budgets, purchasing documentation (bids, quotes and requests for proposals) and claim details, for eight of these open capital projects with Board-authorized budgets totaling \$20.8 million and expenditures totaling \$19.4 million as of September 30, 2022. These projects included water, sewer and airport capital improvements as detailed in Figure 1.

**Figure 1: Projects Reviewed**

Project Name	Month/Year Started	Authorized Budget	Recorded Expenditures <sup>a</sup>
<b>H49 Daylight Streaming Grant</b>	November 2016	\$1,095,691	\$1,035,712
<b>H50 Water Wastewater Disinfection</b>	February 2017	9,758,646	9,680,422
<b>H56 Sewer Pollution Right to Know DEC Grant</b>	September 2017	47,999	37,331
<b>H59 Combined Water/Sewer</b>	March 2018	163,400	70,580
<b>H53 Sewer Clean Water Main Project</b>	June 2020	9,549,257	8,388,680
<b>H19 Airport Reconstruction Taxiway Rehab</b>	July 2020	109,323	104,652
<b>H18 Airport Pavement Management Program</b>	July 2020	61,000	61,000
<b>H68 Black Point HVAC</b>	May 2022	N/A <sup>b</sup>	1,777
<b>Total</b>		<b>\$20,785,316</b>	<b>\$19,380,154</b>

a) As of September 30, 2022

b) The estimated cost was not established as of September 30, 2022 because the project is in the design phase.

The Town did not monitor capital projects activity on a monthly basis to ensure that costs were kept within the authorized budget. In some instances, the Town relied on the engineer’s assessment and sign-off of contractor payments. However, this assessment did not monitor all project costs in comparison to the Board-authorized project budget. Specifically:

- The Board relied on an engineering firm to monitor the work performed and related billings from contractors for three capital projects (H49, H50 and H53) to ensure costs did not exceed the Board-approved contracts. However, the Board did not implement procedures to monitor all capital project costs in comparison to the overall project budgets, including other project costs for engineering, legal, electrical and insurance costs totaling \$2.5 million. As a

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result, the Board did not monitor these projects in their entirety to ensure that total expenditures did not exceed the authorized budget.

- The Supervisor could not provide documentation of periodic budget-to-actual reports being prepared for the Board by the former Supervisor or the engineer for two capital projects (H59 and H56). The current Supervisor (newly elected in January 2022), Town Clerk and accounting staff told us they searched the Town's electronic and manual files, however they could not locate any periodic budget-to-actual reports pertaining to these two projects, which were completed prior to 2022.
- Two airport projects (H18 and H19) were mainly funded by Federal Aviation Administration (FAA) grant expenditure reimbursements totaling \$153,602. The additional expenditures were covered by Town funds (for H19) and totaled \$12,050. Although a budget-to-actual analysis for revenues and expenditures was provided to the Supervisor, it was not done on a monthly basis. The analysis was only provided to the Town by the engineer when an application for reimbursement was made to the FAA. The Town relied on the engineer's reports and did not perform any other budget-to-actual review for the two FAA airport capital projects. Without a process to monitor all project expenditures monthly, there is an increased risk that the project costs could exceed the authorized budget and grant funding.

We did not observe any instances where the Board-authorized project capital budget was exceeded. However, without adequate procedures for monitoring all capital project expenditures, there is an increased risk for exceeding the project budget and authorized financing.

### **Accounting Records Were Not Properly Maintained**

The accounting records were not properly maintained to allow for the preparation of reliable monthly financial reports that compared actual revenues and expenditure to the Board-approved project budgets. For example:

- The Board-authorized budget of revenues and expenditures were not recorded in the accounting records for five (H18, H19, H50, H56 and H59) of the eight capital projects with Board-approved budgets totaling \$10.1 million. Furthermore, while two (H49 and H53) of the eight capital project accounting records included budgeted revenues and expenditures, subsequent budget modifications totaling \$3.2 million were not recorded in the accounting records.
- Engineering and design expenditures were recorded to capital project H18 in error, resulting in an overstatement of expenditures totaling \$53,536 that pertained to another project in the design phase.

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- Expenditures for the use of Town employees, supplies and equipment were not recorded for two capital projects (H56 and H59), resulting in an understatement of project expenditures totaling \$14,064. Furthermore, these expenditures were not reimbursed back to the Town operating funds that provided the labor, supplies and equipment to satisfy the portion of the grant agreements requiring that the Town contribute to the projects.
  - Expenditures totaling \$124,500 were submitted for grant reimbursement for project H59 (project costs submitted to the grant administrator totaled \$132,557, which included the Town matching funds of \$8,057). However, equipment totaling \$39,488 and engineer services funded by the grant totaling \$14,432 were not recorded in the accounting records. The Supervisor and bookkeeper said that these records were maintained by the former Supervisor and bookkeeper, and they could not provide the support for these unrecorded expenditures submitted for reimbursement or explain why they were not recorded to the project accounting records.

While the eight projects reviewed did not exceed the Board-authorized budgets, without accurate accounting records and reliable budget-to-actual reports, the Board was unable to adequately monitor individual capital project costs to ensure that project costs did not exceed authorized budgets and sufficient funding was available to pay project costs.

### **How Should Officials Ensure Completed Capital Projects Are Properly Finalized?**

Upon a capital project's completion, town officials should ensure that the necessary actions are taken to finalize the project, which include the following:

- Confirm that the established procedures for the acceptance of project work and final project completion have been followed, which includes ensuring that the designated person (e.g., engineer, architect, etc.) signs off on the project's satisfactory completion.
- Approve the project's closure and appropriately close out the accounting records that were used to manage, monitor and report on the project.
- Release held retainage amounts to contractors after satisfactory completion of contract work, when applicable.
- Transfer residual project moneys to the applicable operating fund or reserve in the debt service fund.

Furthermore, town officials should confirm that new capital assets are properly recorded in the Schedule of Non-Current Governmental Assets in the town's accounting records.

## Completed Capital Projects Were Not Properly Closed in the Accounting Records

As of September 30, 2022, the Town's accounting records included separate capital project funds for seven projects that were completed but not closed (Figure 2). Based on our review of the Board minutes, the Board adopted only one resolution authorizing the closing of a capital project (H17 – Airport). Although the Board approved closing the project in fiscal year 2018 (Resolution #401-2018), the project remained open in the accounting records as of September 30, 2022. All seven projects began in 2011 or later and were completed by September 30, 2022.

**Figure 2: Projects**

Project Name	Year Started	Year Completed <sup>a</sup>	Recorded Revenues	Recorded Expenditures	Recorded Unexpended Funds
<b>H17 Airport</b>	2015 <sup>b</sup>	2018	\$6,112,296	\$6,118,641	\$(6,345)
<b>H18 Airport Pavement</b>	2020	2022	61,000	61,000	-
<b>H48 Chilson Water Mn</b>	2011	2021	2,304,121	2,303,421	700
<b>H56 Sewer</b>	2017	2019	45,996	37,331	8,665
<b>H57 Parking Lot</b>	2018	2019	47,236	45,042	2,194
<b>H58 Effluent Exchange</b>	2019	2020	36,000	36,000	-
<b>H59 Water/Sewer Separation</b>	2018	2021	210,918	70,580	140,338
<b>Totals</b>			<b>\$8,817,567</b>	<b>\$8,672,015</b>	<b>\$145,552</b>

a) Based on last expenditure paid and/or Board resolution authorizing the closing of the project.

b) According to available information, this project was in progress as early as 2015.

The accounting records for one project recorded a deficit of \$6,345 and four projects recorded unexpended balances (revenues less expenditures) totaling \$151,897. For the H17 Airport project, Town officials were not able to determine the reason for the recorded deficit because of changes in accounting staff and the time period since the project started.

We examined the recorded accounting detail for two projects with unexpended balances (H56 and H59) from the project's inception. Project H59 was funded by a \$124,500 grant and a transfer of \$86,188 from the water and sewer funds (and interest earned totaling \$230). However, all project expenditures were not properly or timely recorded to the project's accounting records even though the final grant reimbursement was received by the Town on February 26, 2021. As a result, the project cannot be closed until all project expenditures are recorded and any remaining unexpended balances are returned to the water and sewer funds that advanced these funds.



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Regarding capital project H56, we determined that expenditures for labor provided by Town employees totaling \$6,006 were not reimbursed to the sewer fund and the remaining unexpended funds advanced by the sewer fund totaling \$2,659 were not returned to the sewer fund upon the project's completion. Because the project was not funded by debt, all unexpended funds should be returned to the sewer fund.

The Sr. Account Clerk told us that Town officials did not know how to close these projects in the accounting records and that the completed projects were not recorded in the Schedule of Non-Current Governmental Assets. Without capital projects being properly closed out, the Board may be unaware of project overruns and cannot be assured that any unexpended funds are properly disbursed.

### **What Do We Recommend?**

The Board should:

1. Monitor capital projects activity on a monthly basis by reviewing monthly budget-to-actual financial reports to ensure funds are available for project expenditures, contract terms are being followed and costs are within the project's budget.
2. Improve its understanding of planning, overseeing and managing capital projects to ensure compliance with laws and reporting requirements and project activity is properly monitored by reviewing our publication, *Capital Projects Fund*.<sup>1</sup>
3. Ensure the Supervisor maintains the capital project accounting records in a complete, accurate and timely manner.
4. Ensure the Supervisor closes capital projects in the accounting records after the project is completed and that unexpended funds are properly handled.

The Supervisor should:

5. Ensure complete and accurate accounting records are maintained and provide monthly reports to the Board that compare the project budgets with actual revenues and expenditures.
6. Ensure that completed projects are closed in the accounting records, residual money is returned to the originating fund and closed capital projects are properly recorded in the Schedule of Non-Current Governmental Assets.

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<sup>1</sup> Available on our website at <https://www.osc.state.ny.us/files/local-government/publications/pdf/capital-projects-fund.pdf>.

# Appendix A: Response From Town Officials

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## Town of Ticonderoga

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Town Council  
Dave Woods  
Joyce Cooper

Town Council  
Tom Thatcher  
Tom Cunningham

July 13, 2023

██████████  
NYS Office of the State Comptroller  
Division of Local Government and School Accountability  
One Broad Street Plaza  
Glens Falls, NY 12801

Subject: Draft Preliminary Report (2023M-38)

Dear ██████████,

This letter is in response to the Draft Report of Examination of the Town of Ticonderoga Capital Project Management (2023M-38) received by my office on June 16, 2023. As the new Town Supervisor, I appreciate your patience and assistance during the audit. I understand that I am ultimately responsible for my clerk and fiscal accountability of this office and take seriously the obligation to safeguard assets and ensure government operations are more effective.

The Ticonderoga Town Board agrees with the preliminary draft report's findings, and we have begun the process, following the exit discussion, for properly maintaining accurate records and tracking of capital projects. We will elaborate on this process and address specific findings and recommendations via the corrective action plan (CAP) upon receipt of the final report.

In closing, I appreciate the professionalism of your staff who guided us through this process.

Sincerely,

Mark A. Wright, Supervisor  
Town of Ticonderoga

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## Appendix B: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials, including the Supervisor, Town Clerk, Water/Sewer Clerk, Sr. Account Clerk and Account Clerk, and reviewed Board minutes and capital project files to gain an understanding of the Town's procedures for maintaining accounting records, closing completed projects and reporting financial transactions.
- We interviewed Town officials, including the Supervisor, Town Clerk, Water/Sewer Clerk, Sr. Account Clerk and Account Clerk, and reviewed Board minutes to determine whether the Board adopted capital project resolutions that established and identified the projects, authorized the maximum estimated cost and how the project would be financed, and whether an itemized project budget was prepared.
- We reviewed capital reserve funds and interfund transfers to verify that appropriate Board actions were taken authorizing the amount of reserve funds and/or interfund advances to be expended.
- We obtained a list of all subcontractors from the two engineering firms to determine whether insurance certificates were requested from subcontractors.
- We selected eight of the 22 current capital projects recorded in the accounting records as of September 30, 2022. We used our professional judgment to select these projects and included: two projects that were completed, three water/sewer projects that were funded through one serial bond, two airport projects and the most current capital project with expenditures first incurred in September 2022. For these eight capital projects, we reviewed:
  - The capital project files to determine whether contracts were publicly advertised, bids were presented to the Board and contracts were properly awarded (e.g., to the lowest bidder).
  - All payments to capital project contractors/vendors to determine whether these payments were consistent with the amounts awarded and audited by the Board, properly supported and for a valid capital project purpose.
  - All payments to determine whether they were properly authorized and approved, including change orders.
  - All payments to determine whether all project costs were properly recorded in the project's accounting records and that the correct retainage percentage was withheld and returned for completed projects.

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- The capital project files to determine whether a capital project budget was established by Board resolution, and the project was monitored by the Board or an appointed designee on a regular basis to ensure that costs were kept within the approved budget.
  - The project's accounting records to determine whether adequate records were maintained for each capital project and the records contained sufficient information to track and report the project's complete financial history.
  - We examined the accounting records and project files for two of the seven completed capital projects that were open in the accounting records as of September 30, 2022 to determine whether the Board ensured necessary actions were taken to finalize these projects.

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

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.

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 provided 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 the CAP available for public review in the Town Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf)

**Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

**Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/local-government/fiscal-monitoring](http://www.osc.state.ny.us/local-government/fiscal-monitoring)

**Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

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**Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

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## Contact

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