



Town of Barre

Town Supervisor's Activities and Board Oversight

Report of Examination

Period Covered:

January 1, 2012 — July 8, 2014

2014M-220



Thomas P. DiNapoli

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State of New York

Office of the State Comptroller

Division of Local Government and School Accountability

October 2014

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 Barre, entitled Town Supervisor's Activities and Board 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*

Introduction

Background

The Town of Barre (Town) is located in Orleans County and has a population of 2,025 residents. The Town Board (Board), comprising five elected members, is the legislative body responsible for the general management and control of the Town's financial and operational affairs. The Town provides various services to its residents, including road maintenance, snow removal, water and general government support. The Town's 2014 budgeted appropriations for all funds totaled approximately \$1.7 million and were funded primarily by real property taxes, sales tax, user charges and State aid.

The Town Supervisor (Supervisor) is the Town's chief executive and chief fiscal officer. The Supervisor, who is a member of the Board, has the overall responsibility for receiving Town moneys, maintaining the accounting records and preparing financial reports. The Board contracted with an accounting firm to assist the Supervisor in fulfilling his financial duties.

Objective

The objective of our audit was to review the Supervisor's financial records and reports. We addressed the following related question:

- Did the Supervisor maintain complete and accurate accounting records and reports to allow the Board to monitor the Town's financial operations?

Scope and Methodology

We examined the Supervisor's financial records and reports for the period January 1, 2012 through July 8, 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 C of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue raised in the Town's response.

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 New York

State 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.

Town Supervisor's Activities and Board Oversight

The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions, including maintaining accounting records and preparing accurate financial reports in order to provide the Board with information needed to monitor the Town's financial affairs. An important Board oversight responsibility includes monitoring financial activity and performing the required annual audit of the Supervisor's books and records.¹

The Board contracts with an accounting firm (Firm) to assist the Supervisor in fulfilling his financial duties. However, the Supervisor is still responsible for the accounting records and should adequately oversee and monitor the Firm's work. We found that he did not adequately monitor the Firm's work. The Firm maintained the Town's accounting records, prepared bank reconciliations and was responsible for all financial reporting with little oversight by the Supervisor. Additionally, the Board did not review key financial reports and did not perform an annual audit of the Supervisor's records, as required by law. As a result, there were significant problems with the accounting records and the Town's records did not agree with the annual financial reports. For example, restricted fund balance totaling \$157,839 for various reserve funds was included in the accounting records but not in the Town's annual financial report.

In addition, the Board did not approve interfund transfers and the transfers that were made were not always repaid in a timely manner. Finally, we found no evidence that the Town's reserve funds were properly established.

Monitoring and Oversight

The Supervisor is responsible for performing accounting functions, including maintaining accounting records and providing monthly financial reports to the Board. If the Supervisor assigns his financial duties to another individual or firm, the Supervisor must provide sufficient oversight to ensure suitable records are maintained and financial information is recorded accurately and in a timely manner. It is essential² that the Board receives regular financial reports from the Supervisor to fulfill its responsibility of monitoring financial operations.

¹ New York State Town Law requires the Board to annually audit, or retain a public accountant to audit, the books and records of any town officer or employee who received or disbursed moneys in the previous fiscal year.

² See our publication *Fiscal Oversight Responsibilities of the Governing Board*, available at: http://www.osc.state.ny.us/localgov/pubs/lmgf/fiscal_oversight.pdf

The Firm performed virtually all of the Supervisor's financial duties without his oversight. The Firm maintains the Supervisor's accounting records, prepares bank reconciliations and is responsible for all financial reporting. Additionally, the Supervisor did not review the bank reconciliations or compare bank to book balances.

Although the Board received monthly budget-to-actual reports and financial reports summarizing the Town's financial position and results of operations, the Board did not adequately review the information presented. According to the Supervisor, the Board reviewed monthly revenues and expenditures but not the Town's cash balances, assets, liabilities or fund balance. As a result, the Board was not aware that the Firm used inappropriate accounting methods that concealed the true financial condition of certain Town funds. Additionally, we found no evidence in the minutes or elsewhere that the Board annually audited, or provided for an audit of the Supervisor's books and records, as required. Board members confirmed that an audit was not conducted during 2013.

The Board's failure to review key financial reports and perform required annual audits diminishes its ability to effectively monitor the Town's financial operations and could result in errors or irregularities occurring and remaining undetected and uncorrected.

Accounting Records and Reports

The Town's financial data must be complete, accurate and up-to-date to be relevant and useful for managing Town operations. Without accurate financial information, the Board cannot make informed financial decisions.

The Firm uses a combination of an accounting software application and spreadsheets to record and present the Town's financial activity. The Firm uses the software application to record the revenues and expenditures; however, the software is not able to generate appropriate financial reports. Therefore, the Firm has to manually prepare separate monthly financial reports, which consist of spreadsheet summaries of financial activity. Moreover, the Board considers the spreadsheet reports to be the Town's accounting records. Town officials must contact the Firm for a breakdown of summary activity. Relying on spreadsheets to serve as the primary accounting system is inherently risky because spreadsheets do not record transaction histories and can be modified without any audit trail other than the last time the spreadsheet was saved.

Furthermore, neither the Supervisor nor the Board receives the final year-end financial reports. While the December monthly report included year-to-date totals, the Firm made significant year-end adjustments to the records prior to preparing the annual financial

report. For example, the Board was not aware of the \$8,484 and \$41,565 year-end credit adjustments made for water district #5 capital project expenditures for 2012 and 2013, respectively. Furthermore, the Firm could not provide us with documentation to support the adjustments made. In addition, we found that the Firm improperly recorded a \$1.5 million bond anticipation note (BAN) as revenue in the Town's 2012 records and the annual financial reports. Typically, a BAN is a short-term financing instrument and a liability is recorded. Revenue is only recognized when long-term permanent financing is issued (i.e., the bond). As a result, the true financial activity of the capital project was not accurately accounted for or reported.

We also found that the Firm did not record certain revenues received during our scope period in a timely manner. Revenues collected were recorded in the accounting records after the end of the fiscal year rather than when they were received and available. As a result, revenues were misstated and the monthly reports provided to the Board were inaccurate. Moreover, cash balances were incorrectly reported to the Board, and the Town's records (i.e., the monthly financial reports) did not agree with the annual financial reports that were filed with the Office of the State Comptroller (OSC). For example, in August 2013, the Town issued \$931,000 in serial bonds to finance the cost of constructing water district #5. The Firm did not record the revenue in the Town's accounting records until after the end of the 2013 fiscal year. However, the \$931,000 was reported as revenue in the annual financial reports filed with OSC. The Town also received grant revenue totaling \$313,441 in 2012 and an additional \$182,654 in 2013 for the water district #5 capital project. However, the Firm did not record the grant revenues in the Town's 2012 accounting records or on the annual financial reports until the end of the 2013 fiscal year, approximately one year after being received.

Because the Firm did not record the bond proceeds and grant revenues when received, the monthly reports provided to the Board were inaccurate and cash balances were incorrectly reported to the Board. The Town's actual cash balances were significantly higher than the reported cash balances in the Town's accounting records. For example, the Board was not aware that the Town's actual cash balance as of December 31, 2012 was approximately \$300,000 more than the amount reported on the December monthly report.

It is important that revenues are recorded in the accounting system in a timely manner so that Town officials have an accurate picture of the Town's cash flow and can make well-informed financial decisions. Further, had the Supervisor reviewed or performed the monthly bank reconciliations comparing bank statements with the Town's accounting records, he would have been made aware that the Firm

was not recording revenues in a timely manner and therefore could have taken corrective action.

The lack of adequate and timely accounting records makes it difficult for the Supervisor and Board to evaluate the Town's financial activities, and inaccurate records can obscure the Town's true financial condition.

Interfund Advances

General Municipal Law allows the Town to temporarily advance moneys from one fund to another with the Board's approval. Journal entries must be made in the accounting records to document these transactions. Repayment must be made as soon as moneys are available, but no later than the close of the fiscal year in which the advance was made.

The Town made temporary advances for cash flow purposes from the general fund to the capital projects fund for startup costs related to the establishment of the new water districts. However, the Board did not review and approve interfund advances. We found that water district #5 still owed the general fund \$106,126 as of December 31, 2013 even though construction was completed in November 2012. Moreover, water district #5 reported insufficient cash balances as of December 31, 2013 to repay the amount owed in time to finance the current year's operations. Therefore, the collectability of the interfund receivable reported in the general fund is doubtful. The extent to which such amounts cannot reasonably be expected to be repaid impacts the financial condition of the general fund, from which these resources came. If fund balance in the general fund was properly adjusted to reflect the uncollectible interfund receivable, the general fund's available fund balance would decrease from \$252,400 to \$146,274.

We also found that water districts #2 and #3 have owed water district #1 \$4,619 and \$11,621, respectively, for more than five years. Although these water districts have sufficient funds to repay the amount owed, Town officials were not aware of the outstanding interfund loans and have not directed the Firm to make the appropriate accounting entries. The Board's failure to review and approve interfund advances, as required by law, limits the Board's ability to monitor the Town's financial affairs.

Reserve Funds

A town can legally set aside and reserve portions of fund balance to finance future costs for a variety of specified objects or purposes. Appropriately established reserve funds provide a mechanism for legally setting aside money for future use. Reserves may be established by the Board in accordance with applicable laws, which also address how they are funded, expended and discontinued.

The Firm reported restricted fund balance totaling \$157,839 for various reserve funds³ in the Town's 2013 accounting records but not in the annual financial reports. By not properly reporting the portion of fund balance reserved or restricted in the annual financial report, the Town's true financial condition is not fairly or accurately represented.

We also found no evidence in the minutes that the Board properly established these reserves. Because the Board did not clearly define the purpose of these reserve funds, Town officials run the risk that these funds could be used for unintended purposes or simply remain idle instead of being used productively. Town officials indicated that the Board was accumulating these funds for specific purposes but were not aware of the statutory requirements governing establishing, funding and using reserve funds. Therefore, Town officials should seek legal advice regarding steps that should be taken consistent with the statutory requirements for establishing these reserve funds to ratify their establishment.

The lack of the Board's involvement and oversight of financial activities and operations, without compensating controls, increases the risk that errors or irregularities can occur and go undetected. Due to the poor condition of the Town's financial records and reports, the Board was not in a position to appropriately evaluate the Town's true financial condition or effectively monitor financial operations. When the Board and the Supervisor are placing undue reliance on the Firm, controls are weakened and there is an increased risk that Town funds could be misappropriated and improper transactions concealed.

Recommendations

The Supervisor should:

1. Properly oversee and monitor the Firm's work to ensure that the accounting records are complete, accurate and maintained in a timely manner.
2. Ensure that the accounting records and the annual financial report agree.

The Board should:

3. Review the Local Government Management Guide on fiscal oversight, which is promulgated by OSC and can be accessed at http://www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf.

³ As of December 31, 2013, the Firm recorded the following reserves in the Town's accounting records: \$125,734 highway equipment reserve, \$25,998 capital improvement reserve, \$4,954 retirement reserve and \$1,153 water tank restoration reserve.

4. Annually audit, or retain a public accountant to audit, the Supervisor's books and records.
5. Ensure that interfund advances are repaid within the required timeframes.
6. Ensure that reserves are established, funded and used in accordance with statute.
7. Review the Local Government Management Guide on reserve funds, which is promulgated by OSC and can be accessed at <http://www.osc.state.ny.us/localgov/pubs/lgmg/reservefunds.pdf>.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF BARRE

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Mark L. Chamberlain, Supervisor

Councilmen: Peter Beach Larry J. Gaylard Lynn G. Hill Thomas McCabe
Dale Ostroski, Hwy. Superintendent Maureen Beach, Town Clerk

October 7, 2014

Jeffrey D. Mazula
Chief Examiner of Local Government Accountability
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Sir,

The Town of Barre has received its draft copy of the audit performed during the summer of 2014 by your office. We have taken an opportunity to review and discuss your findings.

Many of the issues presented have to do with the Town's oversight of their financial dealings. We intend to correct the methods in which we review financial statements and be more proactive rather than just relying on our accounting firm's reports.

The report indicates that the auditor met with various board members; however, the auditor met only with the Town Supervisor.

See
Note 1
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Sincerely,

Mark Chamberlain
Supervisor

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

In addition to interviewing the Supervisor, we also interviewed Council member, Lynn Hill, regarding annual audit procedures and Board oversight.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine whether the Supervisor maintained complete and accurate accounting records and reports. To accomplish this, we interviewed appropriate Town officials, tested selected records and examined pertinent documents for the period January 1, 2012 through July 8, 2014. Our procedures included the following:

- We interviewed the Supervisor and individuals from the Firm who were responsible for maintaining accounting records and reports and reviewed Board minutes to obtain an understanding of the Town's accounting practices.
- We interviewed Board members to gain an understanding of the procedures performed in completing an annual audit.
- We reviewed relevant financial records and reports to determine if the capital project's revenues and other funding sources were properly recorded for water district #5.
- We reviewed bank statements and bank reconciliations for April 2014 (the month of the most recent bank statement within our scope period) to determine if bank reconciliations were properly performed.
- We reviewed the financial information provided to the Board by the Supervisor to determine if it was sufficient, timely and relevant.
- We interviewed Board members to determine if the financial information provided allowed them to provide proper oversight of the Town's finances.
- We reviewed all interfund transfers and loans for the period January 1, 2012 through April 30, 2014 to ensure they were properly recorded, authorized by the Board and in compliance with statute.
- We reviewed all general fund advances for startup costs for the water district #5 capital project.
- We analyzed cash balances and fund balances in operating funds to determine whether the water district funds had sufficient cash to pay off the interfund loans.
- We reviewed the minutes and resolutions to determine whether the reserves were properly established.

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 D

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