



Town of Exeter

Records and Reports

Report of Examination

Period Covered:

January 1, 2013 — September 4, 2014

2015M-23



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 Exeter, entitled Records and Reports. 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 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 Exeter (Town), located in Otsego County, is approximately 32 square miles and serves about 990 residents. The elected five-member Town Board (Board) is the legislative body responsible for managing Town operations, including maintaining sound financial condition. The Town Supervisor (Supervisor)¹ is a member of the Board and serves as the Town's chief executive officer and chief fiscal officer.

The Town provides various services to its residents, including highway maintenance, snow removal and general government support. The Town's 2014 budget appropriations were approximately \$659,000, funded primarily with real property taxes and State aid.

Objective

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

- Did the Supervisor and Board ensure accounting records were accurate and up-to-date and financial reports were filed timely?

Scope and Methodology

We examined the Town's records and reports for the period January 1, 2013 through September 4, 2014. We also extended our scope back to 2010 for annual financial reports and to 2012 for tax levy limit calculations.

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 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 our recommendations.

¹ The Supervisor resigned on December 31, 2014, and a new Supervisor was elected to a one-year term that commenced January 1, 2015. For the purposes of this audit report, "Supervisor" refers to the Town Supervisor that resigned on December 31, 2014.

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

Records and Reports

The Board has a responsibility to oversee the Town's fiscal activities and safeguard its resources. The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions, including maintaining accounting records, performing monthly bank reconciliations and filing annual financial reports and tax levy limit calculations² as required by the Office of the State Comptroller. The accounting records and reports must be up-to-date, complete and accurate to be relevant and useful for managing Town operations and evaluating the Town's financial condition. An annual audit helps the Board fulfill its fiscal oversight responsibilities by providing an opportunity to assess the reliability and timeliness of the books, records and supporting documents. Records and reports should also be available for analysis by third-party users of financial information, such as taxpayers, bonding agencies and other State and federal agencies.

The Board did not ensure the Supervisor maintained up-to-date, complete and accurate records. Although the Supervisor provided the Board with accurate monthly budget-to-actual reports, the balance sheets included inaccurate account balances. For example, the July 31, 2014 highway fund balance sheet overstated liabilities by more than \$76,000 because the Supervisor had incorrectly recorded a receipt.³ Further, bank reconciliations contained outdated deposits in transit and inaccurate transactions,⁴ including journal entries that should have been removed to reflect the actual cash balances in the accounts. Moreover, the last time the Supervisor filed the annual financial report was for the 2010 fiscal year, even though our Office sent out several notices to remind the Supervisor of the filing deadlines and offers

² The State Legislature and the Governor enacted a law in 2011 that established a tax levy limit on all local governments, which was effective beginning in the 2012 fiscal year. The law precludes local governments from adopting a budget that requires a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, unless the governing board adopts a local law to override the tax levy limitation.

³ This receipt represents a reimbursement from CHIPS for improvements made in 2013. When the Supervisor received the money, she applied it against a receivable, which was incorrect because the receivable was never created. As a result, this entry created a negative (credit) balance in the receivable account. When the Supervisor received the money, she should have debited cash and credited revenue.

⁴ Unreconciled transactions as of December 31, 2014 included deposits in transit dating back several years, including one from January 2012 for \$7,229, and a journal entry (credit) to cash dated December 30, 2011 for \$22,958. In addition, there were unreconciled deposits in transit from 2012 and 2013.

for assistance, and the tax levy limit calculation has never been filed since the inception of the tax cap law for the 2012 budget year.

The Supervisor told us these conditions occurred because she was not familiar with the accounting software and because Town officials were unable to find a reliable bookkeeper. For example, in 2012, the Board hired a bookkeeper to correct deficiencies in the records and file the 2011 annual financial report; however, the bookkeeper was unable to correctly balance the books and therefore could not file the report. The Supervisor, who had expressed her desire to resign from her position several years ago, failed to file the required tax levy limit calculation since its inception. Further, the Board has not audited the Supervisor's records during our audit period because it relied solely on its trust of the Supervisor.

Had the Board performed even a cursory audit of the Town's records,⁵ it would have identified the discrepancies described in this report. As a result, the Board does not have accurate, up-to-date financial information such as how much cash is available, to make informed decisions. For example, without accurate bank reconciliations and balanced funds, it is not possible for the Board to know the amount of fund balance in each fund, and there is an increased risk that errors or irregularities have occurred and remain undetected.

Furthermore, this lack of information limits the Board's ability to monitor financial operations and can lead to unplanned deficits, such as those that were experienced by the Town's highway fund for two of the past three fiscal years. These deficits caused the Board to use \$52,000 of unrestricted fund balance to support highway operations. While the general fund currently has enough resources to support highway operations, this demonstrates the need for the Board to have sufficient information to ensure the Town has the resources necessary to provide the desired level of services in the future.

Moreover, this lack of information causes a lack of transparency for third-party users of financial information, such as taxpayers, bonding agencies and other State and federal agencies. For example, because the annual financial reports have not been filed, the Town has not been evaluated for fiscal stress by our Office's Fiscal Stress Monitoring System.⁶ This evaluation can be a valuable tool in assessing the

⁵ To assist in the performance of its audit function, the Board should review our office's publication entitled *Fiscal Oversight Responsibilities of the Governing Board*. This publication is available on our website: www.osc.state.ny.us/localgov/pubs/lmg/fiscal_oversight.pdf.

⁶ Our office has developed a system of evaluating a municipality's susceptibility to fiscal stress based on the annual financial statements filed. For details, see: www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm.

Town's financial condition for both taxpayers and Town officials. Finally, because the annual tax levy limit calculations have not been filed, the Board does not know if it is in compliance with the law and the Town taxpayers are unable to receive property tax freeze credits.⁷

Recommendations

The Supervisor should:

1. Ensure that the Town's accounting records and reports are up-to-date, complete and accurate.
2. Submit annual financial reports and tax levy limit calculations to our Office in a timely manner.

The Board should:

3. Conduct a comprehensive annual audit of the Supervisor's financial records.

⁷ The property tax freeze credit reimburses homeowners for increases in local property taxes on their primary residences. To receive the credit, homeowners must meet certain eligibility requirements and the municipality where the homeowner's property is located must comply with the New York State property tax cap. The New York State Tax Department reviews eligibility data, calculates the credits and automatically mails checks to eligible homeowners.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Town of Exeter, NY
7411 State Highway 28
Schuyler Lake, NY 13457

I, Town Supervisor of Exeter, agree with all the findings submitted by the State of New York Comptroller Office. This is in response to the Report of Examination Period Covered: January 1, 2013-September 4, 2015.

Town Supervisor of Exeter
Julie Murphy

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to review the Town's records and reports for the period January 1, 2013 through September 4, 2014. We also extended our scope back to 2010 for annual financial reports and to 2012 for tax levy limit calculations.

To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and reviewed Board minutes to gain an understanding of Town processes and operations and to determine the internal controls in place.
- We compared the Town's adjusted bank balances for all funds to the cash recorded in the accounting records to determine the Town's book balance as of December 31, 2014.
- We interviewed the Supervisor to gain an understanding of the accounting records and determine why the 2011, 2012 and 2013 annual financial reports had not been submitted to our office.
- We interviewed Town officials to determine if an annual audit was performed of the Supervisor's records and reports and to gain an understanding of their review of monthly Board reports.

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.

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