



# Town of Clarkson

## Budgeting and Board Oversight

### Report of Examination

Period Covered:

January 1, 2012 — July 11, 2013

2013M-339



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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

February 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 Clarkson, entitled Budgeting 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 General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Town of Clarkson (Town) is located in Monroe County and includes a portion of the Village of Brockport (Village). According to the 2010 census, the Town has a population of 6,736. The Town's 2013 budgeted appropriations for the town-wide (TW) general, TW highway, town-outside-village (TOV) general and TOV highway funds totaled approximately \$2.9 million. The TW funds have tax bases that encompass the entire Town, including the Village. The TOV funds have tax bases that encompass only the portion of the Town that lies outside of the Village. The Town provides various services to its residents, including street maintenance, snow removal and general governmental support. The services are financed through real property taxes, sales tax and State aid.

The Town is governed by an elected Town Board (Board), which comprises 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 financial officer and is also responsible for the day-to-day management of the Town under the direction of the Board. The Board has appointed an assistant to the Supervisor (Assistant) who performs the financial recordkeeping duties, enters payroll data and maintains leave records. The Town uses a private third-party contractor to process, report and disburse payroll and related employment taxes for a fee.

#### **Scope and Objective**

The objective of our audit was to review the Town's budgeting practices and Board oversight for the period January 1, 2012 through July 11, 2013. We extended our scope back to 2008 and forward to December 31, 2013 to review the Town's fund balance levels and budgeting trends. Our audit addressed the following related questions:

- Did the Board adopt realistic budgets and maintain reasonable fund balance levels?
- Did the Board implement and monitor adequate internal controls over financial operations to properly safeguard Town resources?

#### **Audit Results**

The Board did not develop policies or procedures for budgeting practices and, as a result, repeatedly adopted budgets with unrealistic estimates for revenues, expenditures and appropriated fund balance. These inaccurate budgets caused significant budget variances and resulted in unused appropriated fund balance; fund balances were not actually reduced to the levels represented to taxpayers in the adopted

budgets. Continued reliance on poor budgeting practices could result in the accumulation of excess funds or create financial difficulties for the Town.

The Board also has not adopted, reviewed, updated or enforced adequate financial-related policies to ensure Town resources are protected. The financial duties in the Supervisor's Office were not adequately segregated and there were no effective compensating controls. Additionally, the Board has not entered into detailed written agreements with the payroll processor and bank to ensure that the Town's information and resources are adequately safeguarded. Due to these weaknesses, Town officials cannot ensure that resources are properly safeguarded and used only for necessary and authorized Town purposes, and the Board may be limited in its ability to monitor Town financial operations.

### **Comments of Local Officials**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our findings and recommendations and indicated that they have begun and will continue to implement corrective action.

# Introduction

## Background

The Town of Clarkson (Town) is located in Monroe County and includes a portion of the Village of Brockport (Village). According to the 2010 census, the Town has a population of 6,736. The Town provides various services to its residents, including street maintenance, snow removal and general governmental support. The services are financed through real property taxes, sales tax and State aid. The Town's 2013 budgeted appropriations for the town-wide (TW) general, TW highway, town-outside-village (TOV) general and TOV highway funds totaled approximately \$2.9 million. The TW funds have tax bases that encompass the entire Town, including the Village. The TOV funds have tax bases that encompass only the portion of the Town that lies outside of the Village.

The Town is governed by an elected Town Board (Board), which comprises 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 financial officer and is also responsible for the day-to-day management of the Town under the direction of the Board. The assistant to the Supervisor<sup>1</sup> (Assistant) performs the financial recordkeeping duties, enters payroll data and maintains leave records. The Town uses a private third-party contractor to process, report and disburse payroll and related employment taxes for a fee.

## Objective

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

- Did the Board adopt realistic budgets and maintain reasonable fund balance levels?
- Did the Board implement and monitor adequate internal controls over financial operations to properly safeguard Town resources?

## Scope and Methodology

We examined operations of the Town for the period January 1, 2012 through July 11, 2013. We extended our scope back to 2008 and forward to December 31, 2013 to review fund balance levels and budgeting trends.

<sup>1</sup> The current Assistant began in that position in March 2012.

**Comments of  
Local Officials and  
Corrective Action**

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.

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 findings and recommendations and indicated that they have begun and will continue to implement 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 to make this plan available for public review in the Town Clerk's office.

# Budgeting

The Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers who fund its operations. This responsibility requires the Board to implement policies and procedures governing budgeting practices that help ensure the adoption of realistic and structurally balanced budgets, so that recurring revenues finance recurring expenditures. It is important that the Board prepare the annual budget based on actual financial results from prior years along with other relevant available data. In addition to accurate revenue and expenditure estimates, Town officials should have available to them, when they are developing the budget, a reasonable estimate of the fund balance – i.e., the difference between revenues and expenditures accumulated from prior years – that will be available at the end of the current fiscal year. The Board is responsible for retaining enough unexpended surplus funds<sup>2</sup> at the end of the year to provide a reasonable financial cushion for unexpected events and cash flow in the ensuing year. The Board may then appropriate a portion of surplus fund balance as a financing source in the ensuing year’s budget to reduce the tax levy. The appropriation of fund balance should result in a planned operating deficit (expenditures exceeding revenues) for that year and can be an effective tool to responsibly reduce surplus fund balance. However, the Board must use accurate fund balance estimates and careful planning to avoid over-appropriating fund balance and potential fiscal stress. Conversely, it is not a sound practice to routinely appropriate fund balance that will not actually be used, due to budgetary surpluses built in to revenue and expenditure estimates. This practice misleads taxpayers and often results in increases in excessive fund balances or much smaller decreases than budgeted, as well as potentially excessive tax levies.

The Board has not developed policies or procedures to govern budgeting practices as well as the level of unexpended surplus funds to maintain. As a result, the Board consistently adopted budgets with unrealistic estimates of revenues, expenditures and the amount

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<sup>2</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term “unexpended surplus funds” to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year’s budget (after Statement 54).

of fund balance to be used to fund operations. These inaccurate budgets caused significant budget variances and resulted in unused appropriated fund balance. Instead of the planned operating deficits, fund balances were not actually reduced to the levels represented to taxpayers in the adopted budgets. Continued reliance on poor budgeting practices could result in the accumulation of excess funds or create financial difficulties for the Town. Tables 1 and 2 illustrate the significant budget variances and operating results for the TW general and highway funds over five years.

Town-Wide Funds — The Board has not effectively budgeted accurate estimates of revenues, expenditures or the amount of fund balance to be used for the individual TW general and highway funds.

	2008	2009	2010	2011	2012
Budgeted Revenues	\$732,705	\$725,745	\$961,953	\$666,852	\$870,367
Actual Revenues	\$985,249	\$986,911	\$1,406,441	\$916,640	\$1,146,481
Variance	\$252,544	\$261,166	\$444,488	\$249,788	\$276,114
Budgeted Expenditures	\$993,311	\$995,745	\$1,005,453	\$1,019,352	\$1,015,367
Actual Expenditures	\$1,049,403	\$1,140,774	\$1,551,901	\$1,045,373	\$1,095,612
Variance	(\$56,092)	(\$145,029)	(\$546,448)	(\$26,021)	(\$80,245)
Appropriated Fund Balance	\$260,606	\$270,000	\$43,500	\$352,500	\$145,000
Operating Surplus/(Deficit)	(\$64,154)	(\$153,863)	(\$145,460)	(\$128,733)	\$50,869
Unused Appropriated Fund Balance	\$196,452	\$116,137	(\$101,960)	\$223,767	\$145,000

Town officials annually underestimated TW general fund expenditures over the five-year period by a total of \$853,835. The largest variance occurred in 2010 as a result of unbudgeted parks project costs.<sup>3</sup> Revenues were also annually underestimated by a total of \$1.5 million during the five years, which generally offset the negative expenditure budget variances, as well as the appropriated fund balance. Most significantly, the Town routinely estimated sales tax revenues at roughly half of the amount actually anticipated and received. For example, for the 2011 and 2012 fiscal years combined, the Town budgeted \$394,000 for sales tax and received \$790,765, or 201 percent of the budgeted amount. Overall, these unrealistic estimates resulted in positive budget variances totaling \$630,265 for the last five years. As a result, \$579,396 (54 percent) of appropriated fund balance was unused. Additionally, in the 2011 and 2012 budgets, the Board lacked accurate estimates of available fund balance and appropriated more fund balance in the budget than was actually

<sup>3</sup> The Board did not include the Town’s share of project costs, estimated at \$411,357, in the Town’s adopted TW general fund budgets. The Town incurred additional unbudgeted costs for two projects that were over-expended by \$87,500 and a third project for which the Town had to pay \$29,368 because it did not submit for reimbursement for the full grant award.

available as of the previous year end, and the Town thus reported unappropriated fund balance deficits as of December 31, 2010 and 2011.<sup>4</sup> Thus, the Board has consistently made significant errors in all aspects of its general fund budgets.

	2008	2009	2010	2011	2012
Budgeted Revenues	\$796,570	\$840,475	\$606,774	\$848,642	\$590,964
Actual Revenues	\$1,158,166	\$1,101,795	\$748,086	\$1,076,600	\$703,504
Variance	\$361,596	\$261,320	\$141,312	\$227,958	\$112,540
Budgeted Expenditures	\$1,108,090	\$1,142,475	\$1,148,274	\$1,161,642	\$1,210,964
Actual Expenditures	\$1,101,016	\$953,322	\$981,108	\$927,452	\$899,690
Variance	\$7,074	\$189,153	\$167,166	\$234,190	\$311,274
Appropriated Fund Balance	\$311,520	\$302,000	\$541,500	\$313,000	\$620,000
Operating Surplus/(Deficit)	\$57,150	\$148,473	(\$233,022)	\$149,148	(\$196,186)
Unused Appropriated Fund Balance	\$311,520	\$302,000	\$308,478	\$313,000	\$423,814

The Board also made significant errors in all aspects of the TW highway fund budget; it overestimated expenditures by a total of \$908,857 during the five-year period and underestimated revenues by a total of over \$1.1 million. These inaccurate estimates generated positive budget variances totaling \$2 million for the five years and resulted in over \$1.6 million (79 percent) of appropriated fund balance being unused. As a result, the fund’s unreserved fund balance at December 31, 2012 was over \$675,000, or 75 percent of 2012 expenditures, well in excess of the reasonable cushion necessary for the ensuing fiscal year. By appropriating over \$2 million in fund balance over five years, while deliberately building in additional budgetary surpluses with overly conservative revenue and expenditure estimates, the Board has mislead taxpayers and represented that it was taking steps to make reductions to excessive fund balance, which did not actually occur. The Board did reduce property taxes and used a portion of the appropriated fund balance for the 2010 and 2012 fiscal years<sup>5</sup> and in the 2013 budget as well. However, the Board increased property taxes again in the 2014 budget.

We reviewed the Town’s 2013 budget-to-actual report as of January 7, 2014.<sup>6</sup> These preliminary results showed a budgetary surplus for the TW general fund which increased fund balance. Significantly, the Town again received 71 percent more sales tax than estimated in the

<sup>4</sup> These were not true deficits because the reported fund balance appropriations that caused them did not actually get used.

<sup>5</sup> The Board consistently alternated years for tax increases between the TW general and highway funds and thus increased the tax levy for the general fund in 2010 and 2012.

<sup>6</sup> There are still (potentially significant) year-end entries to be made, so these results are preliminary.

budget. The TW highway fund had an operating deficit of \$459,824, due to the reduction in revenues and the actual use of 77 percent of the \$600,000 appropriated fund balance. As a result, fund balance significantly declined to 25 percent of 2013 expenditures. Continued reliance on appropriating large amounts of fund balance, as is called for in the 2014 budget, could result in a fund deficit by year end.

We noted similar budgeting deficiencies for the TOV funds, with smaller dollar amounts, and discussed them with Town officials.

In the Town's 2014 adopted budget, the Board continued its ongoing practices. During fieldwork, we reviewed our findings with the Supervisor to enable corrective action to be taken in the 2014 budget. After our review of the preliminary 2014 budget, we pointed out that past practices had continued. Still, the Supervisor did not take corrective action when developing the final budget.

## **Recommendations**

1. The Board should adopt budgeting policies and procedures which include defining reasonable amounts of unexpended surplus funds that the Town should maintain.
2. The Board and Town officials should develop and adopt budgets with realistic estimates of revenues and expenditures and the appropriation of fund balance only in amounts that are available and necessary to fund operations.

## Board Oversight

The Board is responsible for overseeing the Town's financial operations and ensuring that adequate internal controls are in place to safeguard its resources. The Board can fulfill this responsibility, in part, by establishing and enforcing policies and procedures required by law and sound business practice for financial operations and information technology (IT). Such policies should ensure that duties are properly assigned so that the same individual cannot control all aspects of financial transactions without compensating controls, such as independent review or additional supervisory oversight. In addition, the Board must ensure that written contracts contain provisions to safeguard Town resources and that provisions are clearly defined and properly enforced.

We found that the Board has not adopted, reviewed, updated or enforced adequate financial policies to ensure Town resources are protected. Additionally, the financial duties in the Supervisor's Office were not adequately segregated and there were no effective compensating controls. The Board has not entered into detailed written agreements with the payroll processor and bank to ensure that the Town's information and resources are adequately safeguarded.

### Policies and Procedures

General Municipal Law (GML) requires the Board to adopt written policies for investments and procurements and to adopt a code of ethics. The Board should also develop written policies for all finance-related areas including cash receipts and disbursements, claims processing, payroll, maintenance of leave records, credit cards and IT. Town officials are responsible for developing written procedures to implement the policies adopted by the Board.

We found that the Board has not adopted, reviewed, updated or enforced adequate financial policies to ensure Town resources are protected. The Board and Town officials have not adopted policies and procedures for cash receipts and disbursements, claims processing, payroll,<sup>7</sup> maintenance of leave records and IT to define responsibilities and provide guidelines to officials and employees. Additionally, we found that the investment policy was outdated and the procurement policy was inadequate.

We identified the following weaknesses in Town policies and policy enforcement:

<sup>7</sup> It is important that the Board adopt a payroll policy to ensure that payroll is disbursed in accordance with all legal requirements.

- Investment Policy — The Board has adopted an investment policy, however, it is outdated. The policy was last updated in 1987, approves banks that are no longer in service and has not been annually reviewed by the Board as required by law. Additionally, the Assistant, who performs most banking duties, was not aware that the policy existed. Therefore, she was not in a position to adequately assist the Supervisor in investing Town moneys in accordance with the Board’s intentions and authorizations and related legal requirements.
- Procurement Policy — The Board has adopted a procurement policy that does not require the solicitation of competition for professional services.<sup>9</sup> As a result, the Town spent \$175,767 during the audit period for legal, accounting, engineering and grant development services without soliciting competition. Without a comprehensive policy that encourages the use of competition when awarding professional service contracts, the Board and Town officials cannot assure taxpayers that these costly services are procured at the most favorable terms and without favoritism.

Without implementation and enforcement of adequate policies and procedures, the Town cannot ensure that resources are properly safeguarded and used only for necessary and authorized Town purposes.

**Supervisor’s Office – Segregation of Duties**

To safeguard cash, financial duties should be segregated so that no individual controls most or all phases of a transaction. Where it may not be practical to segregate these key duties, the Supervisor should implement compensating controls such as a periodic review of accounting records, bank statements and reconciliations to help prevent or detect errors and irregularities. The Supervisor should also use audit logs and change reports as a means of determining who is accessing the accounting system, the entries that are being made and what changes have been made in the system. Generally, Town Law requires the Supervisor to sign all checks. When authorized by resolution of the Board, a designated Town employee may sign checks with the Supervisor’s facsimile signature as reproduced by a machine or device commonly known as a check signer. The Supervisor must

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<sup>9</sup> While professional services are not required to be competitively bid, GML requires the Board to adopt a procurement policy which provides for some level of competitive comparisons for all procurements not subject to competitive bidding requirements, including professional services. Soliciting written proposals or quotes, as through a request for proposal (RFP) process, is an effective means to procure professional services at the best value and document how the selection was made.

control custody of the check signer and must supervise the designated Town employee when he or she is using it to sign checks.<sup>10</sup>

We found that the financial duties in the Supervisor's Office were not adequately segregated and there were no effective compensating controls. The Assistant maintains accounting records, completes bank reconciliations, prints vendor checks and affixes the Supervisor's signature on the checks with a check signer. She also inputs payroll information provided to the third-party payroll processor and maintains personnel files and leave records.

Although the Supervisor stated that he reviewed bank statements and bank reconciliations, we found that the Assistant had been preparing bank reconciliations in a software system separate from the accounting system, which did not provide any printed or documented reconciliation for review. Additionally, during 2012, the Assistant was not aware<sup>11</sup> that she also had to reconcile to the financial software cash balances, which then required the Town at the end of the year to make adjusting journal entries totaling \$72,098 to reconcile cash.

We also found that the bank statements do not contain canceled check images, which diminishes the effect of reviewing the bank statement as an effective compensating control, especially when the Assistant is using the Supervisor's signature plate to sign checks. Further, the Supervisor stated that he does not review any additional financial information/reports, audit logs or change reports from the financial software other than the monthly supervisor's report that is provided to the Board.<sup>12</sup> After the beginning of our fieldwork, the Assistant changed the bank reconciliation process in May 2013 to fully document the reconciliation and the Supervisor began reviewing the complete detailed reconciliation.

Our testing of various financial records<sup>13</sup> did not identify any significant discrepancies. However, without properly segregated duties or compensating controls over financial activities, the Town has an increased risk that accounting errors and irregularities may occur and remain undetected and uncorrected.

## **Contracts with Service Providers**

It is essential for the Town, when contracting out significant functions or services, to enter into written agreements with clear provisions that address the needs, expectations, roles and responsibilities of the

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<sup>10</sup> GML requires local governments to receive and retain canceled checks or, if authorized by the governing board, alternative documentation in the form of check images supplied by the payor bank or trust company, which show both sides of each check, for purposes of record keeping and auditing.

<sup>11</sup> Due to changing staff, the lack of policies and procedures and lack of guidance from the Supervisor

<sup>12</sup> This report is generated from the software by the Assistant.

<sup>13</sup> See Appendix B, Audit Methodology and Standards, for details on our testing.

parties; pricing; billing; and terms of payment. An agreement that lacks specificity can lead to indecision and disagreements. Town officials are responsible for ensuring that the service providers are properly performing the applicable functions, in accordance with the agreements, and that adequate internal controls are in place at the service organization to safeguard the Town's sensitive or confidential data, protect public assets from loss or misuse and provide assurance that transactions are accounted for completely and accurately.

Payroll Processing — A Town may enter into a written agreement with a private contractor to perform certain functions in connection with payroll preparation. However, a Town may not delegate to a private contractor duties such as having custody of and disbursing Town funds, and the Supervisor may not delegate his check signing authority to anyone other than a Town officer.

During our audit period, the Town paid approximately \$6,300 to two different payroll service providers<sup>14</sup> which processed payroll, printed the payroll checks,<sup>15</sup> applied the Supervisor's signature to the checks and were responsible for preparing, filing and making payment with Town funds for payroll taxes. Additionally, the signed payroll checks arrive at the Town in sealed envelopes and are not verified by a Town official or employee before distribution.<sup>16</sup> The Town engaged these services, and the Supervisor provided his electronic signature to these providers, without a detailed written agreement specifying services to be provided and provisions for safeguarding sensitive or confidential data, bank account information or the Supervisor's signature that is applied on checks.

We asked Town officials if they were aware of any specific controls in place at the service provider to protect and secure the Town's information that may not have been written into an agreement. They were not aware of any controls, which increases the risk of inaccurate or possibly fraudulent transactions occurring and remaining undetected. After we completed fieldwork, the Town obtained a copy of the service provider control report – an independent assessment of the provider's payroll tax service system.

Banking — It is essential that the Town enter into a written agreement with the bank that provides online banking services and electronic funds transactions. GML requires that this agreement prescribe the manner in which electronic (wire) transfers of all funds will be

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<sup>14</sup> The Town switched payroll service providers in June 2012 but did not change the services provided to the Town.

<sup>15</sup> Or made direct deposits

<sup>16</sup> Checks are written against the Town's bank account and can be viewed by the Assistant after clearing the bank.

accomplished, identify the names and numbers of the bank accounts from which such transfers may be made, identify the individuals authorized to request the transfer of funds, and implement security procedures which includes verifying that a payment order is that of the initiating entity (the Town). For example, a callback provision would require the bank to contact someone other than the person who initiated the transaction to confirm the transfer. The Town's agreement with the bank should also address all other essential services to be provided, including provisions for receiving, viewing and storing canceled check images.

The Town does not have a detailed written agreement with the bank that describes how canceled check images will be made available, or practices and controls related to online banking such as authorized users, transfer limits or required notifications of transfers. On our inquiry, the Assistant obtained a general use agreement for online services from the bank; however, this does not contain specific information for the Town. As a result, the Assistant makes electronic transfers of Town moneys among accounts within the same bank without supervisory review, which increases the risk that moneys may be transferred improperly or that a transfer will not be properly recorded and documented.

Additionally, because the Town did not have a detailed contract with the bank to set forth the parameters of services needed, Town officials were unaware that they were only able to access the past three months of canceled check images online. The Board may be limited in its ability to monitor Town financial operations without ensuring that necessary records, such as canceled check images, will be available for review.

## **Recommendations**

3. The Board should establish written policies required by law and sound business practices for Town operations. These policies for cash receipts and disbursements, claims processing, payroll and IT should be updated periodically.
4. The Board should consider amending the Town's procurement policy to include the use of competitive methods when procuring professional services.
5. The Supervisor should adequately segregate the financial duties of his office or implement effective compensating controls, such as reviewing financial reports, audit logs or change reports provided by the financial software.
6. The Supervisor should ensure that the Assistant continues to perform timely detailed bank reconciliations and reconciles totals

to financial software cash balances. The Supervisor should review these bank reconciliations.

7. The Board should review the current “agreement” for payroll services with the Town’s legal counsel and make amendments, as appropriate, so that the private contractor does not exercise the custodial and disbursing functions vested by statute in the Supervisor and to ensure that its information and resources are protected. This could include ensuring continued receipt of the private contractor’s assessment of controls report.
8. Town officials should enter into a comprehensive agreement with the Town’s bank that:
  - Designates controls that are established by the bank and cannot be changed by the user,
  - Establishes the process to be followed for electronic transfers of funds,
  - Identifies the names and numbers of the bank accounts from which transfers may be made,
  - Identifies the individuals authorized to request the transfer of funds,
  - Requires the bank to contact an individual independent of the wire transfer process, such as the Supervisor, for authorization of all wire transfers and
  - Provides for the required and convenient access to Town check images.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



## TOWN OF CLARKSON

3710 Lake Road, P.O. Box 858  
Clarkson, NY 14430  
www.clarksonny.org

**PAUL KIMBALL  
SUPERVISOR**

Tel: 585-637-1131  
Fax: 585-637-1138  
supervisor@clarksonny.org

February 13, 2014

Mr. Edward V. Grant, Jr., Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street – Suite 522  
Rochester, NY 14614-1608

Dear Mr. Grant:

The Town of Clarkson received a copy of the draft audit report, "Budgeting and Board Oversight" on February 3<sup>rd</sup>, 2014. The Town Supervisor and Town Board appreciate the detailed analysis that this report contains. We have reviewed and discussed the findings and recommendations of the report and will use it as a tool to reflect on best practices and make corrective action where considered appropriate or necessary.

The Town has already implemented and/or updated many of its policies since the beginning of the Comptroller's field work, including the Investment policy and an Information Technology policy. The Town plans on adopting policies and procedures for cash receipts and disbursements, claims processing, payroll and maintenance of leave records, as well .

The remainder of our response will follow the format of the Comptroller's report.

### **EXECUTIVE SUMMARY**

The Town believes that the Town and the Office of the State Comptroller have different philosophies on budget policies and procedures. As a result, we disagree that the Town has not developed policies and procedures that result in unrealistic estimates for revenues, expenditures, and appropriated fund balances.

The Town's policy is to budget revenues conservatively. Using this policy, the Town has been able to maintain consistent tax rates, internally fund small special districts, match grants for major projects, acquire parkland at discounted prices, and have no Town-wide debt. Revenues budgeted conservatively are sales taxes, contracts with other governments, and grants since Town is not always assured of the amount or receipt of these funds. When the Town receives these funds, it results in revenues in excess of original budgets. Expenditures typically exceed original budgets when the Town uses funds not in original budget to match grants, to hire personnel for joint agreements with neighboring communities,

or to purchase park, highway or other equipment when the Town has adequate reserves or will receive funds from sources that were not known during development of the original budget.

The Town's budget procedures include meeting the schedule recommended for the preparation of a budget. Among procedures followed are input from Town personnel, especially the Highway Superintendent, Town Board workshops, public hearings, and passage on a timely basis. We recognize that budget modifications of the original budget have only been made to accounting records at the end of the year in the past. However, we have improved internal controls and are now making budget modifications to the accounting records on a more current basis.

The Town believes it has implemented policies and procedures that adequately safeguard the Town's assets in a cost-effective manner. The Town believes it can improve procedures and intends to implement some of the Comptroller's recommendations. However, the segregation of duties in a Town Clarkson's size is difficult, if not impossible, to meet without spending more than the Town deems prudent. The Town has consulted with its Certified Public Accountant about the risks and internal controls needed. It has taken the CPAs and OSCs observations into consideration in evaluating segregation of duties and risks of loss. The annual year-end comprehensive review of the Annual Update Document and approval of expenditures in excess of budget has assured Town Officials that controls have been adequate in the past. However, the Town recognizes that there is always room for improvement.

## **SPECIFIC RECOMMENDATIONS AND RESPONSES**

### **Town of Clarkson Corrective Action Plan**

#### **Recommendation 1:**

**The Board should adopt budgeting policies and procedures which include defining reasonable amounts of unexpended surplus funds that the Town should maintain.**

Since the OSC recommends a "reasonable" amount of unexpended surplus funds and this is a subjective opinion, the Town feels that our current surplus fund levels are, in fact, reasonable for the Town of Clarkson. The Town will document our budget policy to clarify the steps taken and reasoning behind our budgeting process.

#### **Recommendation 2:**

**The Board and Town officials should develop and adopt budgets with realistic estimates of revenues and expenditures and the appropriation of fund balance only in amounts that are available and necessary to fund operations.**

The Town will review the philosophy explained in the Executive Summary and determine if modifications could or should be made.

#### **Recommendation 3:**

**The Board should establish written policies required by law and sound business practices for Town operations. These policies for cash receipts and disbursements, claims processing, and payroll and IT should be updated periodically.** The Town will develop written policies for cash receipts and disbursements, claims processing, and payroll. Our IT and investment policies were updated and approved in 2013.

**Recommendation 4:**

**The Board should consider amending the Town's procurement policy to include the use of competitive methods when procuring professional services.**

The Town Board will take into consideration the OSC's recommendation for amending the procurement policy relating to the use of competitive methods when procuring professional services. The solicitation of competition for professional services is a topic which the Board has discussed at length in the past, and will continue to be carefully considered moving forward.

**Recommendation 5:**

**The Supervisor should adequately segregate the financial duties of his office or implement effective compensation controls, such as reviewing financial reports, audit logs or change reports provided by the financial software.**

The Supervisor will evaluate effective compensating controls, including reviewing financial reports, bank statements and audit logs where available.

**Recommendation 6:**

**The Supervisor should ensure that the Assistant continues to perform timely detailed bank reconciliations and reconciles totals to financial software cash balances. The Supervisor should review these bank reconciliations.**

The Supervisor will continue to review the monthly bank reconciliations.

**Recommendation 7:**

**The Board should review the current "agreement" for payroll services with the Town's legal counsel and make amendments, as appropriate, so that the private contractor does not exercise the custodial and disbursing functions vested by statute in the Supervisor, and to ensure that its information and resources are protected. This could include ensuring continued receipt of the assessment of controls.**

The Town Attorney will examine the Town's current agreement for payroll services and the Board will implement any recommended changes.

**Recommendation 8:**

**Town officials should enter into a comprehensive agreement with the Town's bank.**

The Town will work with our bank on each referenced issue and obtain a comprehensive agreement particular to the Town of Clarkson. Additionally, we plan to pursue obtaining specific comprehensive agreements with our bank and our payroll provider to meet the OSC recommendations.

The Corrective Action Plan outlined above will be implemented immediately and the Supervisor and Board will monitor the progress of achieving the above-stated goals, with an anticipated completion date of December 31<sup>st</sup>, 2014.

Very truly yours,

Paul M. Kimball  
Supervisor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the Town's internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: Board oversight, financial management, cash receipts and disbursements, purchasing, payroll and IT. During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as policies, Board minutes and 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 potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected budgeting practices and Board oversight for further audit testing.

To accomplish our objective, we reviewed financial management and Board oversight for the period January 1, 2012 through July 11, 2013. We extended our scope back to 2008 and forward to December 31 2013, to review fund balance levels and budgeting trends. To achieve the objective of this audit and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and employees to gain an understanding of Town processes and operations and to determine the internal controls in place.
- We reviewed Town policies, the employee handbook and Board minutes.
- We analyzed fund balance for the period 2008 through 2013. We also compared budgeted revenues and expenditures to actual operating results for 2008 through 2013.
- We reviewed total annual revenues and expenditures to determine the operating deficits or surpluses for each fund. We also reviewed budgets for 2008 through 2014 to determine the amount of fund balance that was appropriated for each fund each year.
- We reviewed individual line item budget-to-actual results for 2011 and 2012 and compared these results with the 2013 adopted budget.
- We reviewed the Town's approved 2011 and 2012 budget transfers.
- We reviewed and analyzed grant awards, project budgets, Town budgets and project summaries for the Town's three capital projects ongoing during our audit period.
- We randomly selected two months for testing from the audit period January 2012 through April 2013, the last completed month at the start of fieldwork. For the two randomly selected months, February 2012 and January 2013, we performed the following tests:

- o We traced all transfers and withdrawals from the bank statements to other Town accounts or supporting payment information.
- o We compared bank statement deposits to financial records of receipts.
- o We reviewed disbursements and compared bank statements and canceled check images to financial records, abstracts and claims to determine if payments were for valid Town purposes, had sufficient supporting documentation and corresponded with financial records.
- o We compared payroll with canceled checks (when applicable) or the direct-deposit report, approved salary/pay rates and time records to determine if employees were paid appropriately.
- We reviewed leave records and compared leave earned and used with payroll reports.
- We reviewed the agreements with and payments to the Town's payroll processors and bank.
- We reviewed and totaled payments from January 2012 through June 2013 to eight professional service providers used by the Town.

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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