

Town of Franklin

Financial Condition

MARCH 2018



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Town of Franklin

Audit Objective

Determine whether the Town Board (Board) effectively monitored the Town's financial condition.

Key Findings

- Since 2014, the town-outside-village (TOV) Highway fund balance decreased by 59 percent to \$87,500, or 13 percent of expenditures.
- The Town Supervisor (Supervisor) did not provide the Board with complete financial reports, or file annual financial reports (AUDs) with the Town Clerk (Clerk) or Office of the State Comptroller (OSC).
- The Board did not audit the records or reports of the Supervisor.

Key Recommendations

- Reduce the Town's reliance on TOV Highway fund balance as a financing source for recurring expenditures.
- The Supervisor should provide the Board with accurate balance sheet reports and complete a timely AUD each year, file it with OSC and provide a copy to the Clerk and Board members.
- The Board should annually audit the records and reports of the Supervisor.

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

Background

The Town of Franklin is located in Delaware County.

The Town is governed by an elected Board which is composed of a Supervisor and four Board members. The Board is responsible for the general management and control of the Town's financial operations, including adopting the annual budget and establishing financial policies. The Supervisor serves as the chief executive officer, chief fiscal officer and budget officer and is responsible for day-to-day financial operations. The Supervisor has appointed a Deputy Fiscal Officer to maintain the accounting records and assist in the financial reporting and filing.

Quick Facts

Population	2,400
2018 Budgeted Appropriations	\$1.7 million

Audit Period

January 1, 2016 – October 20, 2017

We extended our scope back to January 1, 2014 and forward to December 31, 2017 to analyze financial condition.

Financial Condition

How Should the Board Effectively Monitor the Town's Financial Condition?

The board is responsible for effectively monitoring the town's financial condition. In order to effectively monitor the financial condition, the supervisor must provide financial reports to the board with enough information to monitor the town's financial affairs. This will assist the board in adopting structurally balanced budgets with accurate estimates of how much fund balance can be used as a financing source. The supervisor is also responsible for filing an AUD with the clerk and OSC. While it is the supervisor's responsibility to prepare and file the AUD, the board should review the report and ensure that the supervisor completes and submits it to the clerk and OSC within the time limit prescribed by law.¹ The AUD provides the board, OSC, town residents and other interested parties with a tool to monitor and evaluate financial operations. Lastly, the board is required to annually audit the records and reports of town officers and employees who receive and disburse money. The audit's results should be documented in the board minutes and include a description of the records reviewed and the procedures performed.

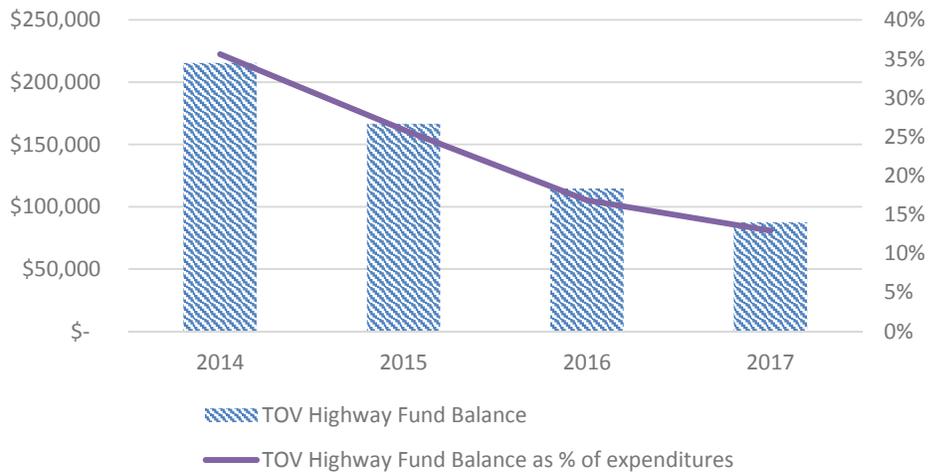
The Board Did Not Effectively Monitor the Town's Financial Condition

The Board's 2018 adopted budget for the TOV Highway fund includes plans to spend \$110,000 of fund balance to finance recurring expenditures. However, this is almost \$23,000 more than what is available. Since 2015, the Board has budgeted for, and used, TOV Highway fund balance to finance budget shortfalls in the TOV Highway fund. This practice has caused the total TOV Highway fund balance to decrease by 59 percent to \$87,500 as of December 31, 2017 (or 13 percent of TOV Highway fund expenditures).

¹ The AUD must be filed within 60 days after the fiscal year end. A written request for a 60-day extension can be sent to OSC before the end of the original filing period.

FIGURE 1

TOV Highway Fund Balance



Conversely, the town-wide (TW) fund balance more than doubled during the same period. This occurred because the Board was not aware of the fiscal stability of any of the Town's funds. Although the Supervisor provided the Board with monthly budget-to-actual reports and bank statements, he never provided the Board with balance sheet reports, including fund balance levels. Additionally, the Supervisor has not filed the AUD with the Town Clerk or OSC since 2008. Furthermore, the Board did not perform an annual audit of the accounting records or reports of the Supervisor. Our previous Report of Examination included similar findings.

The Deputy Fiscal Officer told us that the fund balance for all funds was inaccurate because he had not recorded interfund loan activity and was in the process of investigating and correcting past errors. Therefore, he did not file the AUDs. The Deputy Fiscal Officer has started recording past interfund loans and has corrected past errors. He contacted OSC in 2017 for assistance with filing past AUDs. Also, the Board was unsure of how to do a proper annual audit. We provided the Board with annual audit guidance available in the OSC publication titled *Fiscal Oversight Responsibilities of the Governing Board*.²

The Board's ability to monitor the Town's financial affairs and develop budgets is diminished when it does not receive complete and accurate financial reports and fails to perform necessary audits. Although the Town has sufficient TW fund balance to meet its current TW operating needs, the TW and TOV funds have different tax bases. Therefore, the TW fund balance cannot be used to subsidize

2 http://www.osc.state.ny.us/localgov/pubs/lgmg/fiscal_oversight.pdf

TOV operations. Since the Board has depleted fund balance in the TOV highway fund, it must find alternate funding sources or reduce appropriations.

What Do We Recommend?

The Board should:

1. Reduce the Town's reliance on TOV Highway fund balance as a financing source for recurring expenditures.
2. Reduce 2018 budgeted appropriations in the TOV Highway fund, or find alternative revenues to offset the impending deficit in that fund.
3. Monitor the status of the AUD filings.
4. Annually audit the records and reports of the Supervisor. The audit's results should be documented in the Board minutes and include a description of the records reviewed and the procedures performed.

The Supervisor should:

5. Provide the Board with accurate balance sheet reports that include fund balance levels.
6. Complete a timely AUD each year, file it with OSC and provide a copy to the Clerk and Board members.
7. Ensure that the Town's accounting records are complete and accurate, including interfund loan activity.

Appendix A: Response From Town Officials

Town of Franklin
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MARCH 14, 2018

Office of the NYS Comptroller
Binghamton Regional Office
State Office Building, Suite 1702, Hawley St.
Binghamton, NY 13901-4417

Dear H. Todd Eames, Chief Examiner

The Town of Franklin acknowledges the Report of Examination Draft issued by your office. The Town plans to implement your recommendations. Some of these were done before the exit meeting. The Town Board has audited the Supervisors financial records according to the checklist provided by the State of NY. Balance Sheets were also provided at the February 6, meeting. An accounting firm has also been contacted to file AUD's for the Town.

Sincerely,

Jeffery R. Taggart

TOWN SUPERVISOR

Appendix B: Audit Methodology and Standards

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 and reviewed Board minutes to gain an understanding of the Board's oversight of financial operations and to determine whether the Board annually audited the Supervisor's records and reports.
- We compared accounting records to bank statements to determine whether there were material discrepancies between the recorded revenues and expenditures and to calculate fund balance levels in each of the TOV and TW funds for 2014 through 2017.
- We analyzed the trends in total fund balance in the TOV and TW funds for 2014 through 2017 and compared the levels to annual TOV and TW expenditures.
- We compared the estimated revenues and appropriations for the TOV and TW funds to the actual revenues and expenditures for 2014 through 2017 to determine whether total estimated revenues and appropriations were realistic.
- We reviewed the tax levies for 2014 through 2018 to determine trends in the amounts levied.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

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

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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Division of Local Government and School Accountability
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