

Town of Schroon

Town Hall Expansion Project

OCTOBER 2018



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

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Report Highlights

Town of Schroon

Audit Objective

Determine whether Town officials provided sufficient oversight and management of the Town Hall expansion project.

Key Findings

- An itemized budget was never prepared for the project outlining the financing sources needed to fund the estimated cost.
- Accounting records for the project were not maintained throughout the fiscal year.
- We project expenditures will exceed the financing sources for the project by approximately \$98,000 (7 percent), resulting in the project not being able to repay interfund advances made from the general fund.

Key Recommendations

- Prepare and approve an itemized budget for each project and amend it as needed.
- Ensure the Town's accounting records for projects are accurate and maintained in a timely manner.
- Ensure the balance of outstanding interfund advances from the general fund that cannot be repaid are written off.

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

Background

The Town of Schroon (Town) is located in Essex County.

An elected five-member Town Board (Board), which is composed of the Town Supervisor (Supervisor) and four Board members, is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for receiving, disbursing and retaining custody of Town money, maintaining accounting records and providing financial reports to the Board.

The Town Hall expansion project included the construction of an addition to the Town Hall to provide additional space for the Library, Justice Court and other Town purposes.

Quick Facts

Population	1,650
2018 Appropriations	\$4.8 million
Project Debt Issued	\$1.1 million

Audit Period

January 1, 2015 – March 31, 2018

Town Hall Expansion Project

How Should the Board Plan, Authorize and Monitor Capital Projects?

Proper planning of a capital project (project) requires that the Board have a thorough understanding of the project's overall scope and cost prior to the project's authorization. Initial estimated costs must be realistic so the Board can plan financing and keep the taxpayers informed. The Board should adopt a resolution at the inception of each project, identifying the project, authorizing the maximum estimated cost and establishing how the project will be financed and prepare an itemized budget.

The Board should also monitor the status of each project by reviewing monthly financial reports that compare actual revenues and expenditures to the related budget. In addition, with limited exceptions,¹ New York State Town Law requires the Board to audit and approve all claims against the Town, including those for project costs, before directing the Supervisor to pay them. Effective claims auditing procedures ensure every claim is subject to a thorough and deliberate review and contains enough supporting documentation to determine the amount claimed represents an actual and necessary project expenditure and is in accordance with any executed contracts.

A Project Budget Was Not Established

The Board contracted with an architect to prepare estimates for the Town Hall expansion project and selected an estimate with a cost of \$1,457,750. On December 14, 2015, prior to the commencement of the project, the Board adopted a resolution authorizing the option selected for the project and establishing a maximum estimated cost of \$1,100,000 to be financed by the issuance of serial bonds and/or bond anticipation notes up to the same amount. However, the Board did not adopt a new resolution to increase the maximum estimated cost to align with the estimated cost for the option selected by the Board or establish other financing sources prior to the commencement of the project.

The Board established additional financing sources for the project after the project commenced, which included a \$28,000 Justice Court Assistance Program (JCAP) grant on March 14, 2016 and a \$100,000 State and Municipal Facilities Program grant on July 11, 2016. In addition, the Board authorized the Justice to submit for an additional \$30,000 JCAP grant to finance the project on October 20, 2016.² As a result, the Board established financing sources for the project totaling \$1,258,000, or \$199,750 less than the estimated cost. Town officials told us they

¹ The Board may, by adopting a resolution, authorize payment of certain claims in advance of its audit. Claims that may be paid in advance include claims for public utility services, postage, freight and express charges. Such prepaid claims must still be presented for audit at the next regular Board meeting.

² On January 14, 2017, the Town was awarded a \$14,000 JCAP grant.

anticipated to finance the remainder of the estimated cost through donations, contributions from the Library and in-kind services performed by the Town.

However, the Board never prepared an itemized budget for the project outlining the financing sources needed to fund the estimated cost. This also contributed to budget status reports for the project not being presented to the Board during the audit period. As a result, the Board could not effectively monitor the project, ensure financing sources were sufficient to fund expenditures incurred, or ensure expenditures did not exceed the estimated cost.

Claims Were Audited After Payments Were Made

We reviewed all 86 check disbursements totaling \$1,390,957 for project claims paid during the audit period to determine whether the corresponding claims for these disbursements were supported by adequate documentation, for appropriate purposes and audited and approved before payment. All the claims reviewed were supported by adequate documentation and for appropriate purposes.

However, the Board did not audit and approve claims for five of the 86 check disbursements totaling \$244,346 before payment, as required by Town Law. This occurred because the Supervisor issued checks for these claims before the Board's regular monthly claims audit in order to meet payment deadlines.

Although we did not find any discrepancies, when claims are paid before the Board's approval, there is an increased risk improper claims could be paid or claims could be paid that are not in accordance with executed contracts.

How Should Financial Transactions Be Recorded?

The Supervisor, as the chief fiscal officer, is responsible for maintaining accounting records. If the Supervisor assigns these duties to an assistant, the Supervisor should provide sufficient oversight to ensure the assistant maintains suitable records and documents financial information accurately and on a timely basis.

Complete and accurate accounting records for projects are necessary for project management and proper financial reporting. Because projects are budgeted on an individual project basis, an individual project fund should be established for each authorized project to document the project's complete financial history, including assets, liabilities, fund equity and results of operations (revenues and expenditures). Project records must be maintained in a manner that allows for a ready comparison of the project's budget to actual financing sources received and expenditures incurred throughout the course of the project.

Accounting Records Were Not Properly Maintained

The Supervisor assigned accounting duties to his clerk,³ but did not provide sufficient oversight to ensure the clerk maintained proper accounting records for the project. Consequently, we found that the clerk did not maintain accounting records for the project including: assets, liabilities, fund equity, revenues and expenditures throughout the fiscal year.

Instead, during the fiscal year, the clerk recorded financial transactions for the project in a checkbook register maintained for the separate bank account established for the project. The clerk also recorded disbursements for the project in the financial system so the corresponding checks could be printed. At the end of the fiscal year, the clerk used these records to create accounting records for the project (including assets, liabilities, fund equity, revenues and expenditures), to assist her in preparing the annual financial report.⁴

Because accounting records were not properly maintained for the project, we reviewed all six financing sources totaling \$1,317,689 that were received related to the project during the audit period to determine whether they were deposited into the separate bank account established for the project. We found that four of the six financing sources totaling \$1,275,689 that were received during the audit period were deposited directly into the project bank account. However, the JCAP grant totaling \$28,000⁵ had not been deposited into the project account during the audit period. Instead, as of March 31, 2018, the grant funds remained on deposit in a separate bank account established for a project related to the construction of a pier.⁶ Subsequent to us communicating this to Town officials, the clerk deposited the funds into the project bank account on April 11, 2018.

In addition, although another JCAP grant totaling \$14,000 had been wired into the Town's trust and agency bank account on February 13, 2017, the funds were not deposited into the project account until more than nine months later on December 5, 2017. The clerk told us she did not deposit the grant funds into the project account more timely because the project account had sufficient funds available from other financing sources to pay project expenditures.

The Supervisor's lack of sufficient oversight of the clerk's accounting records has resulted in incomplete records for the project being maintained throughout the

3 Clerk to the Supervisor, separate from the Town Clerk

4 General Municipal Law requires the Supervisor to prepare and file an annual financial report with the Office of the State Comptroller within 60 days after the close of the fiscal year.

5 On February 8, 2012, the Town was awarded the JCAP grant to pay for Court improvements not related to the Town Hall expansion project, which was received on March 12, 2012. However, the grant was not used for the originally intended Court improvements. As a result, on December 1, 2015, the Town requested approval to use the grant for the Town Hall expansion project, which was subsequently approved on February 29, 2016.

6 The grant was improperly deposited into this bank account when it was initially received on March 12, 2012.

fiscal year. As a result, the Board was unable to adequately monitor the project's financial operations and determine the true financial condition of the project during the fiscal year. In addition, this contributed to a financing source not being recorded as project revenue and financing sources not being used to finance project expenditures in a timely manner.

How Should Interfund Advances Be Authorized and Repaid?

New York State General Municipal Law (GML) allows the Town to temporarily advance money held in one fund to another fund. However, the Board must authorize each advance by resolution. Interfund advances are intended to address short-term cash flow needs of operating funds and/or projects and are, in effect, short-term borrowing arrangements between the operating funds and/or projects and are to be repaid by the end of the fiscal year.

Interfund Advances Were Not Authorized and Cannot Be Repaid

We reviewed all interfund advances made to the project during the audit period to determine whether they were approved by the Board and repaid. We found that the Board did not authorize \$79,155 in interfund advances made from the general fund to the project, which were used to pay for project expenditures prior to the Town receiving \$1.1 million in debt proceeds on November 18, 2016.⁷ An additional general fund advance of \$38,000 was made on February 13, 2018, which was approved by the Board on February 12. As of March 31, the project owed the general fund \$117,155 for these interfund advances.

We project financing sources received and anticipated to be received total \$1,405,898, while expenditures incurred and anticipated to be incurred total \$1,503,791, resulting in a financing shortfall. As a result, we further project that the project cannot repay \$97,893 of the \$117,155 in interfund advances made from the general fund. Town officials agreed with our projection.

⁷ The Town issued 21 check disbursements totaling \$79,155 for the project, which were dated between February 9, 2016 and November 14, 2016, with the corresponding expenditures being financed by the general fund.

Figure 1: Project Financing Sources and Expenditures

Financing Sources	Amount
Received as of March 31, 2018	\$1,317,689
Anticipated to Be Received	\$88,209 ^a
Total Financing Sources	\$1,405,898
Expenditures	
Incurred as of March 31, 2018^b	\$1,390,957
Anticipated to Be Incurred	\$112,834
Total Expenditures	\$1,503,791
Financing Shortfall	(\$97,893)

a This represents the amount the Library has agreed to reimburse the Town once they receive State Aid for Library Construction. The New York State Education Department's Division of Library Development has preapproved the Library's application for \$112,618.

b This amount includes \$63,208 in additional expenditures requested by the Library and funded by the Town, which consisted of \$13,243 in upgrades during construction and \$49,965 for Library furnishings.

Town officials' lack of sufficient oversight and management of the project has resulted in interfund advances being made from the general fund to the project that cannot be repaid, which will negatively affect the Town's financial condition when the uncollectible interfund advance balance is written off in the general fund. If the general fund retained the \$657,430 of unrestricted fund balance reported at the close of the 2017 fiscal year, writing off the projected uncollectible interfund advance would eliminate approximately 15 percent of the balance.

What Do We Recommend?

The Board should:

1. Adopt a resolution at the inception of each project, which identifies the project, authorizes a realistic maximum estimated cost and establishes how the project will be financed.
2. Prepare and approve an itemized budget for each project and amend it as needed.
3. Authorize all interfund advances and ensure the balance of outstanding interfund advances from the general fund that cannot be repaid are written off.
4. Closely oversee the remainder of the project to ensure the additional anticipated financing sources are received and the additional expenditures incurred remain within executed contracts.

The Supervisor should:

5. Provide the Board with monthly reports comparing actual revenues and expenditures to the amounts budgeted for each project.
6. Ensure no claim, other than those allowed under Town Law, is paid before audit and approval by the Board.
7. Ensure the Town's accounting records for projects are accurate and maintained in a timely manner.

Appendix A: Response From Town Officials

TOWN OF SCHROON

PO Box 578, 15 Leland Avenue
Schroon Lake, New York 12870

"A Town of Recreational Beauty"



E-mail - Supervisor Marnell - marnell@schroon.net

Office - (518) 532-7737

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Michael R. Marnell
Supervisor

Patricia J. Savarie
Town Clerk

Dana W. Shaughnessy
Supt. of Highways

Town Council

Roger M. Friedman

Clara M. Phibbs

Donald C. Sage

Margaret C. Wood

September 21, 2018

Office of the State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
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Albany, NY 12236

Office of the State Comptroller
Jeffrey P. Leonard, Chief Examiner
One Broad Street Plaza
Glens Falls, NY 12801-4396

RE: 2018M-128-Town of Schroon Town Hall Expansion Project

Ladies and Gentlemen:

The Town Board of the Town of Schroon has reviewed and discussed the Audit of the Town of Schroon Town Hall Expansion Project. The audit's objective was to determine whether Town officials provided sufficient oversight and management of the Town Hall Expansion Project.

The Audit determined several key findings, including: 1) An itemized budget was never prepared for the project outlining the financial sources needed to fund the estimated cost, 2) Accounting records were not properly maintained throughout the year to reflect assets, liabilities, fund equity, 3) The Audit projected the expenditures would exceed the financing sources by 7% (\$98,000) resulting in the project not be able to repay inter fund advances made from the General Fund.

The Town Board of the Town of Schroon agrees that: proper planning of a capital project requires the Town Board to have a thorough understanding of the Project's overall scope and cost prior to the project's authorization; and that Project records must be maintained in a manner for ready comparison of the Project's budget to actual financing resources received and expenditures incurred throughout the course of the Project.

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September 21, 2018

The Town Board fully understands the Auditor's recommendations. The Board also appreciates the opportunity to enhance the professional operating procedures for the Town of Schroon.

The Corrective Action Plan (CAP) for the Town Hall Expansion Project is as follows:

- 1) At a special meeting of the Town Board conducted September 17, 2018: A) the Board passed a resolution to appropriate \$21,276.31 from the General Fund unappropriated fund balance to cover the additional costs of the project; and B) passed a resolution to transfer \$73,500.00 from the General Fund unappropriated fund balance to the Town of Schroon's Revolving Loan Fund.
- 2) At the time of any proposed new capital project a resolution will be adopted which identifies the project, authorizes a realistic maximum estimated cost and establishes how the project will be financed.
- 3) A proposed resolution (below) will serve as a guideline to assure that correct procedures are followed according to New York State Town Law. The final draft of the resolution will be passed at the October 15, 2018 regular monthly meeting:

Whereas, the Town Board of the Town of Schroon, Essex County, New York requires a plan to implement and track any Town capital project in order to provide a thorough understanding of the said project's overall scope and cost prior to the start of said project and to comply with New York State Town Law;

Whereas, the Town Board of the Town of Schroon shall prepare and approve an itemized budget for any Town capital project and amend it as needed; ensure the Town's accounting records for capital projects are accurate and maintained in a timely manner;

Whereas, all monies for each project shall be maintained in a special project related bank account with all documentation subject to the Town Board members' review and available to the public;

Whereas, the Town Board will regularly monitor the financial status, reports of expenditures, income, inter fund advances, assets, liabilities, equity and progress of every contractor and related officials by presentation to the Town Board members, progress spreadsheets with start dates, percent complete and completion date of each step and phase of said project, plus the amount/percent of funds expended to date, including all sources of funding and expenditures related;

Whereas, project's records must be maintained in a manner that allows for a ready comparison of the project's budget to actual financing source received and expenditures incurred throughout the course of the project including all expenditures, change orders, amendments, or other modifications;

Whereas, all claims for payment must be audited and approved before payments are to be made;

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Now, therefore be it resolved that the Town Board of the Town of Schroon, does hereby establish and implement a Project Plan for all Town capital projects that provides complete oversight, financial tracking and record management of all related funds and expenditures, and:

Resolved that said plan shall be effective October 15, 2018

Thank you for the assistance your office has provided to our Town and for this opportunity to respond to the draft audit.

Sincerely,

Michael Marnell
Supervisor

Roger Friedman
Town Board Member

Clara Phibbs
Town Board Member

Donald Sage
Town Board Member

Margaret Wood
Town Board Member

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 the Board minutes to determine whether the Board adopted a resolution at the inception of the project that identified the project, authorized the maximum estimated cost and established how the project would be financed and prepared an itemized budget for the project.
- We assessed the adequacy of the monthly financial reports the Supervisor provided to the Board during the audit period.
- We reviewed all check disbursements for project claims paid during the audit period to determine whether the corresponding claims for these disbursements were supported by adequate documentation, for appropriate purposes and audited and approved before payment.
- We reviewed the Town's accounting records during the audit period to determine whether separate accounting records including assets, liabilities, fund equity, revenues and expenditures were maintained for the project.
- We reviewed all financing sources received related to the project during the audit period to determine whether they were deposited into the separate bank account established for the project.
- We reviewed all interfund advances made to the project during the audit period to determine whether they were approved by the Board and repaid in accordance with GML.
- We compared the total financing sources received or anticipated to be received for the project to the corresponding expenditures incurred or anticipated to be incurred for the project to determine whether the financing sources are sufficient to fund the expenditures. We also determined the effect on the Town's financial condition.

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

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