



H. Carl McCall **Comptroller**

State of New York
Office of the State Comptroller

Town of Pound Ridge

Report of Examination

Period Covered: January 1, 2000 - August 15, 2001
2002M-107



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H. CARL MCCALL
STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

Report: 2002M-107
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**TO THE SUPERVISOR AND MEMBERS
OF THE TOWN BOARD
OF THE TOWN OF POUND RIDGE
WESTCHESTER, NEW YORK:**

Pursuant to Article V, Section 1 of the State Constitution, and further authority vested in the State Comptroller by Article 3 of the General Municipal Law, we have examined selected financial activities of the Town of Pound Ridge for the period January 1, 2000 through August 15, 2001. The results of our audit disclosed certain findings and recommendations which are presented in this report of examination. These findings and recommendations have been discussed with local officials, and their comments have been considered in preparing this report.

One of the State Comptroller's top priorities is to establish and maintain a strong partnership between this office and the local governments of New York State. A primary objective of this partnership is to assist local governments in strengthening their financial management systems. Audits such as this are an important component in accomplishing this objective. They are designed to identify current and emerging issues and provide recommendations for improvement.

If we can be of assistance to you or if you have any questions concerning this report of examination, please feel free to contact the local regional office for your County listed at the back of this report.

Office of the State Comptroller
Division of Municipal Affairs

Executive Summary

Background

The Town of Pound Ridge is located in the northeastern part of Westchester County. Situated in the Hudson Valley, the town was settled in the Long Ridge area in 1718. The population of the town in the past ten years has remained fairly constant at approximately 5,000 residents.

The town provides various services to its residents including general government support, recreational opportunities and road maintenance. Most of the town's expenses incurred in providing these services are accounted for in the general and highway funds. For the fiscal year ended December 31, 2000, the town reported expenditures of \$3,128,269 in the general fund and \$1,498,989 in the highway fund.

Objectives and Scope of Audit

The objective of our audit was to review the financial condition of the Town of Pound Ridge for indications of fiscal stress, and to test for significant instances of non-compliance with fiscally related laws, rules and regulations, and guidance of the State Comptroller relevant to the scope of our audit. Our examination addressed the following questions related to the Town of Pound Ridge for the period January 1, 2000 through August 15, 2001:

- Does the town maintain fund balances and cash flows at sufficient levels to finance current operations on a timely basis while not resulting in an excessive accumulation of fund balances?
- Are investments made and secured in accordance with management's authorization, State Comptroller's guidelines and legal requirements?
- Are purchases properly authorized and approved in accordance with management's directions and legal requirements?
- Does the town have adequate policies and procedures to record and safeguard fixed assets?

Executive Summary (Continued)

Examination Findings

Our examination disclosed findings that should be reviewed by the Town Board for appropriate action. Good management practices require that town officials take prompt action concerning our recommendations. We believe that prompt action by town officials will help prevent a burden on current taxpayers who may be providing funding in excess of amounts needed to provide current services and fund authorized reserves, protect the town's resources from possible loss or improper use, and insure compliance with appropriate statutory provisions.

Financial Condition

Based on our audit tests and procedures we noted that the town maintained fund balances and cash flows at higher levels than needed to finance current operations on a timely basis. *

Internal Control and Compliance

Our review indicated that investments specifically prohibited by the town's adopted investment policy were purchased during our audit period. *

We found instances of non-compliance with provisions of the General Municipal Law and the town's adopted procurement policy. *

The town does not maintain adequate control over its fixed assets. Although the Town Board adopted fixed asset guidelines several years ago, there are no procedures currently in place to maintain adequate control over town owned assets. *

Comments of Local Officials

The results of our examination and our recommendations have been discussed with local officials and their comments have been considered in preparing this report. The local officials have indicated that they understand and will make every effort to implement our recommendations.

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Introduction

Background

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Audit Scope, Objectives and Methodology

During this audit we examined selected financial activities of the Town of Pound Ridge for the period January 1, 2000 through August 15, 2001.

The objective of this audit was to review the financial condition and resources of the town for indications of fiscal stress, and to test for significant instances of noncompliance with fiscally related laws, rules, regulations and guidance of the State Comptroller pertinent to the scope of our audit. We focused our audit on the following areas:

- Financial Condition
- Investments
- Purchasing
- Fixed Assets
- Recreation Department

We use a risk-based approach to select areas for audit. This approach focuses our audit efforts on those areas we identify as having the greatest probability for needing improvement. As a result, we prepare our report on an exception basis, highlighting those areas needing improvements and not addressing areas that appear to be functioning properly.

Introduction (Continued)

To accomplish our objectives we interviewed appropriate town officials and employees, reviewed the town's financial reports, tested selected records and transactions, and examined pertinent documents. The specific tests and procedures are noted in the findings contained in the Results of Audit Section.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and perform our audit to adequately assess those operations that are included in our audit scope. Further, those standards require that we understand the internal control structure at the town and its compliance with those laws, rules and regulations that are relevant to those operations, which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe our audit provides a reasonable basis for our findings and recommendations.

The management of the town is responsible for its financial affairs and for safeguarding its resources. This responsibility includes establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that resources are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and are properly recorded; that appropriate financial reports are prepared; that applicable laws, rules and regulations are observed; and that appropriate corrective action is taken in response to audit findings. Nevertheless, errors, irregularities, and instances of noncompliance may occur and not be detected because of inherent limitations in any internal control structure.

Introduction (Continued)

Corrective Action

The Town Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Town Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within ninety days. For guidance in preparing your plan of action, you may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*. We encourage the Town Board to make this plan available for public review in the town clerk's office.

Results of Audit

	Financial Condition
Accumulated Fund Balance	<p>The town has accumulated a significant unreserved, unappropriated fund balance in the general fund.</p> <p>The town's annual financial report for the fiscal year ended December 31, 2000 disclosed that a significant unreserved fund balance has accumulated in the general fund. The general fund unreserved, unappropriated fund balance increased from \$316,027 at December 31, 1997 to \$1,483,963 at December 31, 2000.</p> <p>Our review of the town's audited financial statements at December 31, 2000, disclosed that the general fund unreserved, unappropriated fund balance of \$1,483,963 was approximately 42% of 2001 budget appropriations and 84% of the ensuing year tax levy.</p> <p>A comparison of the unreserved, unappropriated fund balance with the appropriations included in the 2001 budget and the amount of property taxes levied for the general fund is shown on Table 1 below.</p>

	General Fund
Unreserved, Unappropriated Fund Balance, December 31, 2000	\$1,483,963
Fund Appropriations Included in 2001 Adopted Budgets	\$3,523,232
Unreserved, Unappropriated Fund Balance as a % of 2001 Budget Appropriations	42%
2001 Tax Levy	\$1,770,977
Unreserved, Unappropriated Fund Balance as a % of 2001 Tax Levy	84%

Results of Audit (Continued)

The primary cause of the accumulation and retention of the excess fund balance has been the underestimation of revenue when preparing the annual budget. As illustrated in Table 2, we compared the budgetary revenue estimates and appropriations with actual revenue and expenditures for the years 1997 through 2000.

Table 2				
Fiscal Year ended December 31,	1997	1998	1999	2000
Estimated Revenue	\$2,310,390	\$2,492,367	\$2,853,594	\$3,014,908
Less: Actual Revenue	\$2,544,488	\$2,988,703	\$3,347,967	\$3,794,314
Revenue Variance	\$234,098	\$496,336	\$494,373	\$779,406
Variance as a % of Revenues	10%	20%	17%	26%
Appropriations	\$2,535,390	\$2,692,367	\$3,303,571	\$3,247,980
Less: Expenditures	\$2,347,737	\$2,662,451	\$3,116,699	\$3,128,269
Expenditure Variance	\$187,653	\$29,916	\$186,872	\$119,711
Variance as a % of Expenditures	7%	1%	6%	4%
Revenue and Expenditure Variances	\$421,751	\$526,252	\$681,245	\$899,117
Less: Appropriated Fund Balance	\$225,000	\$200,000	\$449,977	\$233,072
Operating Surplus (Deficit)	\$196,751	\$326,252	\$231,268	\$666,045

Results of Audit (Continued)

We analyzed the reported results of operations for the 2000 fiscal year further, and determined that the favorable revenue variance consisted primarily of \$322,532 in state aid in the form of mortgage tax, \$100,178 in interest earnings, and \$90,215 in sales tax. Town officials indicated that they prefer to use a conservative estimate of state aid and sales tax so as to mitigate any significant variances that may not have been foreseen during the time period that the budget was being adopted.

Although the annual operating budget is intended to represent an orderly financial plan for the operation of town activities, it consists of estimates and cannot predict the results of operations with certainty. We recognize that certain revenues are difficult to estimate due to, among other things, their susceptibility to unforeseen occurrences and economic fluctuations, and that operating surpluses or deficits may occur. We also recognize that the maintenance of a reasonable fund balance represents a measure of the town's financial health and a cushion against unexpected occurrences. Nevertheless, the accumulation of an excessive fund balance benefits future taxpayers at the expense of current taxpayers. Therefore, an effort should be made to improve the amounts of estimated revenues and fund balance that will be available at the end of the year to finance operations in the subsequent year. Utilizing more realistic budget estimates could result in a reduction of the real property tax levy.

1. Recommendation

The Town Board should adopt more realistic budgets to ensure that the town does not carry excessive unreserved fund balances from year to year. Revenues, expenditures and available fund balances should be estimated based on such factors as prior year's financial activity and expected operations of the ensuing year. Careful projections should be made to help ensure that taxes are not raised in amounts greater than necessary to provide anticipated services.

Results of Audit (Continued)

Internal Control and Compliance

Repurchase Agreements

The town invests funds in investment securities not authorized by its adopted investment policy.

The Town Board adopted an investment policy on January 6, 1987. Each year the policy is reviewed at the reorganization meeting.

The town's investment policy specifically states in Section X – Permitted Investments, "Investing directly in repurchase agreements is specifically against the policy of the Town of Pound Ridge." ✓

In 1999, the supervisor entered into an agreement with the town's depository with regard to repurchase agreements. This agreement established an agency relationship with the town, whereby the depository executes repurchase transactions as agent for the town.

~~Repurchase agreements are not deposits and therefore are not insured by the Federal Deposit Insurance Corporation or otherwise secured by pledged collateral.~~ Repurchase agreements are investment transactions in which the town purchases securities from a trading partner and simultaneously agrees to resell them and the trading partner agrees to repurchase them at an agreed future date and at an agreed price. We reviewed the town's investments for the period January 1, 2000 through August 15, 2001. At December 31, 2000 and March 31, 2001, the town had invested \$61,012 and \$289,246 in repurchase agreements, respectively. This represents a significant amount of money invested in transactions that, if not properly managed and safeguarded, can expose the town to greater risks than investing in other permissible investments.

2. Recommendation

The Town Board should modify its investment policy to allow for the investment of town funds in repurchase agreements or direct the supervisor to comply with the investment policy as adopted.

Results of Audit (Continued)

Real Property Tax Collections

Interest earnings from deposits of school district, county and fire district real property tax collections was retained by the town without written authorization from the respective boards of education, county board of legislators and board of fire commissioners.

In Westchester County, real property taxes are collected by the towns on behalf of the county, the school districts, and the fire districts located within the town. Property taxes collected by the town receiver of taxes were deposited directly into a bank account in the name of the town. The town subsequently invested these moneys in certificates of deposit, pending the distribution to the school districts, county, and fire district, and interest earned was retained by the town. School district, county, and fire district taxes collected by the receiver amounted to approximately \$15.9 million dollars in 2000. There was no town record identifying that portion of total interest earnings related solely to the deposits of school district, county and fire district property taxes.

Investing idle cash, such as undistributed real property taxes, is an important component of effective cash management, ultimately benefiting taxpayers by generating additional revenues. Town Law, §37(1) provides that the interest earned on property tax moneys collected on behalf of the school districts, county, and fire districts belongs to these entities unless they authorize the town, by resolution, to retain all or a percentage of such interest.

We recognize that the town incurs costs in assessing, collecting, accounting for and disbursing the property taxes it collect. In addition, costs are incurred in financing and enforcing delinquent real property tax accounts because the Westchester County Administrative Code requires the town to guarantee the full amount of each tax levy.

A similar finding appeared in our prior Report of Examinations.

Results of Audit (Continued)

Purchasing Function

3. Recommendation

The Town Board should obtain written authorization from the county and the respective Boards of Education, in order to properly retain interest earned from the investment of county and school district tax collections.

Our examination disclosed internal control weaknesses, procedural deficiencies and instances of statutory noncompliance relating to the town's purchasing function for the fiscal year end December 31, 2000.

One of the basic responsibilities of town officials in the care and management of town assets is to seek to get the best value for every dollar spent. To that end, laws have been enacted to help ensure those responsibilities are met. Ultimately, it all comes down to the system employed by the municipality to make this happen. That system, as it relates to the purchasing function and the way claims (bills) get processed for audit and approval for ultimate payment, should, among other things, address the following questions:

- Were purchases made in the best interest of the public?
- Do the claims, in support of purchases made, have sufficient support for the Town Board to adequately audit?
- Can the Town Board determine if the claim is a proper town charge?

Generally, department heads are responsible for initiating the first step – determining whether or not goods or services are needed and then obtaining them in the right quantity at the right quality from the right source for the right price. The department head should seek competition, dependent on the total price to be paid, pursuant to competitive bidding statutes or the town's adopted procurement policy (see Article 5-A of the General Municipal Law). Once the goods have been received or services have been rendered, a claim should be assembled for Town Board audit and approval prior to its payment.

Results of Audit (Continued)

The claims audit function is a statutory duty that, when performed properly, should be a deliberate and thorough process of determining that each claim is in all respects a proper town charge. It is important that the Town Board's audit and approval of claims is properly documented after it is completed to enable town officials and others to know exactly what claims were audited and approved for payment.

Purchasing - To determine compliance with competitive bidding statutes and the town's adopted procurement policy and procedures, we reviewed listings of payments to vendors for the period from January 1, 2000 through December 2000 and selected claims that we felt, because of their dollar amount, were either subject to competitive bidding statutes or fell within the solicitation and documentation requirements of the town's procurement policy. We selected and tested forty-eight purchase and/or public work contracts, totaling approximately \$222,510, to determine if town officials complied with competitive bidding requirements. We also tested an additional twenty-five purchase and/or public work contracts, totaling approximately \$119,935, to determine if town officials complied with the town's procurement policy. Our findings and recommendations related to the purchasing function follows:

- **Competitive Bidding** - The Town Board did not request bids by public advertisement for the purchase of auto parts. No record was found to indicate that bids had been requested by public advertisement in accordance with Section 103 of the General Municipal Law, for the purchase of auto parts aggregating \$19,319 for the fiscal year ending December 31, 2000.

With certain exceptions, which appear not to be applicable in the above instance, all aggregate purchases in excess of \$10,000 shall be awarded to the lowest responsible bidder after public advertisement for sealed bids (General Municipal Law, §103).

Results of Audit (Continued)

In determining the necessity for competitive bidding, the aggregate amount to be expended for an item in a fiscal year must be considered. Competitive bidding is required when it is known or can be reasonably anticipated that the aggregate amount to be spent on like items will exceed the competitive bidding threshold over the course of a fiscal year. Generally, items of the same or similar nature that are customarily handled by the same vendor should be treated as a single item for the purpose of determining whether the dollar threshold will be exceeded.

Recommendation - The Town Board should develop procedures to help ensure that all commodities whose annual purchases are likely to aggregate in excess of \$10,000 are identified and procured in accordance with the competitive bidding requirements of the General Municipal Law. In addition, town officers and employees involved in the procurement function should be instructed and become familiar with the provisions of the competitive bidding statutes. Furthermore, town department heads should review past purchasing practices as well as assess annual needs of commodities typically purchased for determining what items should be bid. An appropriate town official, such as the highway superintendent, should coordinate and oversee this process.

- **Compliance with Procurement Policy** - The Town Board adopted a written procurement policy required by General Municipal Law, §104-b to provide guidance to town officers and employees involved in the purchasing function for procuring goods and services which are not required to be made pursuant to the competitive bidding requirements of General Municipal Law, §103. For those purchase and public work contracts that are not required by law to be competitively bid, the town's procurement policy generally

Results of Audit (Continued)

requires, with certain exceptions, that either requests for proposals or written or oral quotes be obtained depending on the estimated cost of the contracts. All information gathered in complying with the above procedures is required to be documented. If the purchaser is unable to obtain the required number of quotations or proposals, the purchaser is required to document the attempt(s) at obtaining the quotes or proposals.

We reviewed twenty-five purchase and/or public work contracts, totaling \$119,935, which we had selected for testing, to determine whether they had been entered into in accordance with the town's adopted procurement policy. Of the items selected, twelve of nineteen claims required verbal or written quotes. No documentation was provided to us by town officials to indicate that the required written or oral quotes had been obtained. The failure of town officers and employees to follow the procurement guidelines adopted by the Town Board increases the possibility that goods and services may not be acquired economically, which could result in excess costs to the town. We also note that, although these claims lacked the required supporting documentation, they had been audited and approved for payment by the Town Board.

Recommendation - Town officers and employees involved in the purchasing process should comply with the provisions of the Town Board's adopted procurement policy to help ensure that competition is sought in a reasonable and cost-effective manner for procurements when competitive bidding is not required by law. Quotes solicited and obtained should be adequately documented and retained on file to support compliance with the board's policy. The Town Board should implement procedures to monitor whether the provisions of its written procurement policy are being

Results of Audit (Continued)

followed. In that vein, the Town Board may want to consider requiring that documentation of quotes obtained be attached to the related claim to demonstrate adherence to its policy.

- **Purchase Orders** - The town paid claims for which purchase orders had not been prepared or had been prepared after the goods and services were received. On August 8, 1991, the Town Board adopted a resolution that provided that purchases over \$100 require a purchase order. In order to test for compliance with the board's resolution, we examined twenty-five claims ranging from \$1,002 to \$19,976, which required the issuance of a purchase order. We noted that twelve of nineteen applicable purchases ranging from \$2,076 to \$7,350, were not supported by purchase orders. In addition, we noted that purchase orders for four purchases, ranging from \$7,968 to \$39,875, were prepared after the goods and services were ordered and received.

The failure to consistently utilize purchase orders limits management's ability to exercise timely and effective budgetary control and to prevent unauthorized purchases and also reduces management's ability to properly plan and coordinate procurement of goods and services.

The inherent benefits of a purchase order system can only be derived if purchase orders are prepared, approved and issued prior to the acquisition of goods and services. The practice of allowing goods to be ordered verbally, subject to subsequent confirmation by a written purchase order, should be limited to circumstances where there is a necessity for immediate action. In addition, the individual placing such an order should be required to justify its needs.

Although we did not quantify the cost or benefit lost of preparing a purchase order after the purchase has been made, preparing a purchase order subsequent to making a purchase defeats the intent of the Town Board's resolution.

Results of Audit (Continued)

**Fixed Assets and Highway
Inventory Control**

Recommendation - The Town Board should establish written policies and procedures with regard to issuance of purchase orders. The Board should also inform and communicate these procedures to all employees and then monitor their compliance to such policies and procedures.

A similar finding appeared in our prior Report of Examinations

4. Recommendation

Town officials should take appropriate corrective action to improve internal controls and procedures over the town's purchasing and claims processing functions. Specifically, town officials should review statutes pertaining to competitive bidding, ensure compliance with the provisions of the Town Board's adopted procurement policy, and evaluate procedures for processing and approving claims for payment. Town officials should also take whatever action is necessary to correct weaknesses and procedural deficiencies in the purchasing function and provide additional managerial oversight where needed.

The town does not maintain adequate control over its general fixed assets.

Our review of the town's fixed asset records at September 7, 2001 disclosed the following deficiencies:

- Fixed assets were not reported in the town's annual financial report.
- The town did not maintain a complete inventory record of town owned fixed assets. A complete physical inventory of town owned property has not been done since approximately 1996.

Results of Audit (Continued)

- As of September 30, 2000, the highway superintendent had not prepared nor submitted the 2000 inventory of highway machinery, tools, implements and equipment to the Town Board as required by Highway Law § 142(3). On or before September 30th of each year, the highway superintendent should submit to the Town Board a written inventory of highway machinery, tools, implements and equipment. This list should indicate the value of each article and the estimated cost of all necessary repairs. In addition to complying with law this would insure proper insurance coverage for all highway vehicles and equipment.
- The town's insurance policy listing of vehicles and road equipment contained items that were no longer in the town's possession. For example, our review noted that a 1996 sedan, a 1985 pickup and a 1987 pickup, all carrying collision coverage, were no longer owned by the town. In addition, we noted that a 1998 dump truck was listed twice.
- The public entity insurance policy carried by the town carried a \$1,000 deductible per occurrence of claim. Since the price of a policy is influenced by the deductible attributed to each claim, a review of the number of occurrences in the past five years may yield information on the possibility of raising the deductible to a more cost effective level.

Complete and accurate accounting records for general fixed assets are necessary for proper financial reporting in conformity with generally accepted accounting principles. These records fix responsibility for the control and custody of municipal property and help provide assurance that such property is properly safeguarded. In addition, the records can be useful in determining insurance coverage and preparing claims for insurance recoveries as well as in long range capital planning.

Results of Audit (Continued)

Signature Stamp

5. Recommendation

The Town Board should ensure that complete and accurate fixed assets records are maintained and that a comprehensive and complete physical inventory be undertaken. The general fixed assets group of accounts should be reported on the annual financial report. The highway superintendent should prepare and submit to the Town Board an annual inventory of highway machinery, tools, implements and machinery. The Town Board should review insurance coverage both for accuracy and cost effectiveness. For guidance in this area town officials should refer to the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

A signature stamp, with the facsimile signature of the town supervisor, is used to sign town checks.

Town Law, §29 provides that checks may be signed with a facsimile signature of the supervisor as reproduced by a machine or device commonly known as a check signer, when authorized by resolution of the Town Board. There is no statutory authority for the use of a signature stamp.

Annual Accounting

6. Recommendation

The Town Board may authorize the town supervisor to sign checks through the use of a check signer as provided by Town Law, §29. Until such approval is granted, the town supervisor should be precluded from using a signature stamp to sign town checks.

There was no indication that the Town Board had audited or caused to be audited the records and reports of the town justices for the fiscal year ended December 31, 2000.

Results of Audit (Continued)

Town Law §123 provides that the Town Board shall examine the criminal and civil dockets of each town justice and shall cause to be entered in the minutes of the proceedings that such dockets have been duly examined and that the fines and fees therein shown to have been collected have been turned over to the proper officials. Additionally, Section 2019-a of the Uniform Justice Court Act requires that every town justice present his or her records and dockets to the Town Board at least once a year.

An annual audit serves an important internal control function by providing independent verification that the records have been maintained in accordance with established procedures, that transactions have been properly recorded, and that cash has been properly accounted for.

7. Recommendation

The Town Board should annually audit the books and records of the town justices, as required.

APPENDIX

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