



Town of Cherry Valley Financial Condition

Report of Examination

Period Covered:

January 1, 2015 — March 30, 2016

2016M-212



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Local Officials and Corrective Action	3
FINANCIAL CONDITION	4
Recommendations	6
APPENDIX A Response From Local Officials	7
APPENDIX B Audit Methodology and Standards	9
APPENDIX C How to Obtain Additional Copies of the Report	10
APPENDIX D Local Regional Office Listing	11

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2016

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 Cherry Valley, entitled Financial Condition. 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 New York State General Municipal Law.

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

Respectfully submitted,

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

Introduction

Background

The Town of Cherry Valley (Town) is located in Otsego County and includes the Village of Cherry Valley within its boundaries. The Town covers approximately 41 square miles and serves 1,270 residents. The elected five-member Town Board (Board) is the legislative body responsible for managing Town operations, including maintaining a sound financial condition. The Town Supervisor (Supervisor) is a member of the Board and serves as the Town's chief executive officer and chief fiscal officer.

The Town provides various services to its residents, including highway maintenance, snow removal and general government support as well as maintaining community and health centers. The Town's 2016 budgeted appropriations are approximately \$1.7 million, funded primarily with real property taxes, health center fees and State aid.

The Town's health center primarily serves the Town residents, but also accepts patients from surrounding areas. The Town currently contracts with Bassett Health Care to run the medical operations of the Town-owned health center under the guidance of a physician. Bassett Health Care is responsible for the nurse practitioners and support staff who provide the direct services. The Town provides a full-time office manager who administers the financial operations of the health center, including billing patients for the services provided.

Objective

The objective of our audit was to assess the Town's financial condition and analyze the health center's direct and indirect costs. Our audit addressed the following related question:

- Did the Board and Supervisor effectively assess the health center's impact on the Town's financial condition?

Scope and Methodology

We examined the Town's financial condition for the period January 1, 2015 through March 30, 2016. We extended our scope back to January 1, 2011 for historical perspective.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to take 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 General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk's office.

Financial Condition

The Board and Supervisor are responsible for overseeing the Town’s fiscal activities and safeguarding its resources while providing desired services on a continuing basis. When these services include an atypical operation, such as running a health center, it becomes more challenging to manage the fiscal operations. The Supervisor, as chief fiscal officer, is responsible for financial oversight including accounting functions, maintaining records, preparing budgets and controlling expenditures. Maintaining separate accounting records to properly account for financial transactions for the health center, including allocating all direct and indirect costs, provides for more transparent monitoring and should allow Town officials to properly assess the financial impact the health center has on the Town.

The Board and Supervisor have not effectively assessed the impact of the health center on the Town’s financial condition. As a result, the health center has required over \$200,000 of Town resources over the last three completed fiscal years to sustain operations. Our audit results are based on financial information obtained from source documents and the restatement of the Town’s financial records because the Town’s reported annual financial information was not accurate.

The Supervisor is not maintaining separate accounting records for the health center’s activity and some costs are not allocated to the health center accordingly. The health center’s activity is recorded in the general fund using a single line item for all revenues and a single line item for all expenditures. For the past three years, the health center and Town have had the following results of operations:

Figure 1: Results of Operations				
	2013	2014	2015	Average
Health Center	(\$72,771)	(\$21,737)	(\$81,079)	(\$58,529)
Town ^a	\$28,446	(\$63,334)	\$102,394	\$22,502
Town and Health Center	(\$44,325)	(\$85,071)	\$21,315	(\$36,027)

^a Town results include the town-wide general and highway funds and part-town highway fund, excluding the health center.

Furthermore, while the results show deficits for the health center for the last three years, additional expenditures have not been correctly recorded or allocated to the health center. For example, for 2015, we found the following expenditures were either not allocated to the health center or not recorded properly:

Figure 2: 2015 Unallocated or Incorrectly Recorded Expenditures	
Description	Amount
Credit card fees	\$600
Liability insurance	\$680
Interest on short-term borrowing for cash flow	\$1,000
Repairs, maintenance and utilities	\$7,500
Fringe benefits for office manager and custodian	\$19,700
Total	\$29,480

Adding these expenditures to the recorded results of operations in 2015 increases the total health center operating deficit to \$110,559. Furthermore, as can be seen in Figure 3, the Town ended 2015 with a fund balance deficiency of almost \$10,000 and had operating deficits for two of the last three years.

Figure 3: Combined Town Year-End Fund Balance			
	2013	2014	2015
Fund Balance	\$53,343	(\$31,072)	(\$9,757)

Town officials told us that recent operating deficits were caused by the significant costs to upgrade medical records to an electronic system in 2013 and the retirement of a long-time medical provider in 2015, which resulted in a decrease in revenue from fewer patients being served while the position was vacant. Town officials do not anticipate similar conditions to occur in the future. However, without planning for unexpected additional expenditures, the ability to continue operating the health center may be significantly hampered because of the Town's current fiscal condition. In fact, the lack of planning is already impacting the Town. Town officials issued a \$125,000 revenue anticipation note at the end of each of the last two years because they did not have any fund balance or reserves to sustain Town operations through to the following year when real property tax collections started.

In an effort to improve the Town's fiscal condition, Town officials have increased taxes approximately 7 to 8 percent in each of the last six years. The increased taxes were essentially providing additional resources to help offset the health center's operations and improve the Town's financial condition. However, even with the annual increases, the Town was still fiscally challenged at the end of 2015. Overall, the Town's financial condition did improve slightly from the previous year because of decreased expenditures in the highway operations.

In order for the health center to continue operating and providing its typical services to residents, Town officials will need to significantly increase the number of patients seen or significantly reduce the health center costs for the foreseeable future. It is imperative that Town officials continue to monitor the health center's operations using accurate financial information to minimize the impact on the Town's financial condition. In addition, residents should understand the extent to which they are supporting the health center.

Recommendations

1. The Supervisor should segregate the accounting records for the health center and allocate direct and indirect costs so the Board can properly evaluate the impact of the health center on the Town's financial condition.
2. The Board should assess the future operation of the health center and develop long-term plans to ensure the health center functions in the best interest of the Town's residents.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Town of Cherry Valley

Established 1740

Supervisor

Tom Garretson

Town Clerk

Mary Beth Flint

Superintendent of Highways

Ed Vanderwerker

Council Members

Jim Johnson

Mark Cornwell

Holly Waterfield

Chris Barown

Town of Cherry Valley
Financial Condition / Report of Examination
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2016M-212

The Cherry Valley Town Board does agree with the audit findings and recommendations presented in the OSC Audit.

This audit response is also serving as the CAP.

This proposed plan of action does have the approval of the Town Board.

Audit Recommendation # 1: The Supervisor should segregate the accounting records for the health center and allocate direct and indirect costs so the Board can properly evaluate the impact of the health center on the Town's financial condition.

Implementation Plan of Action: The Town will set up a separate account at NBT Bank to be used exclusively for the revenue and expense transactions of the health center.

The Town will also set up a new company in the town's [REDACTED] accounting system. This will also allow the Town to generate monthly health center reports for the Town board and the health center board.

Audit Recommendation # 2: The Board should assess the future operation of the health center and develop long-term plans to ensure the health center functions in the best interest of the Town's residents.

Implementation Plan of Action: The Town will create and implement a monthly health center budget to actual report to be presented to the Town board and the health center board. This will allow the Town to closely monitor the financial condition of the health center.

Implementation Date for Audit Recommendation # 1 and # 2: January 1st 2017

Person Responsible for Implementations # 1 and # 2: Thomas Garretson – Supervisor

Signed:

Position: SUPERVISOR

Date: 8-3-16

356 Mill Road – Cherry Valley – New York – 13320
email:cvsupervisorgarretson@yahoo.com - tel and fax 607-264-9045

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials and employees and reviewed Board meeting minutes to gain an understanding of the Town's fiscal policies and procedures.
- We assessed the health center's financial condition by examining trends in revenues, the tax levy, expenditures and results of operations.
- We assessed the Town's financial condition by first examining trends in revenues, expenditures, results of operations, equity, debt and cash position, and then restated the financial records in an effort to report on the identified trends.
- We examined the Town's accounting records and interviewed Town officials and employees to determine the direct and indirect costs that were not being accounted for in the single line item used to report health center activity but were instead recorded in the general fund line items.
- We used our restated financial records to determine the impact of the health center's operations on the Town's financial condition.

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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