



Town of Afton Budgeting Practices

Report of Examination

Period Covered:

January 1, 2012 — August 22, 2013

2013M-304



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2013

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 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 Afton, entitled Budgeting Practices. 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*

Introduction

Background

The Town of Afton (Town) is located in Chenango County and has a population of approximately 2,850 residents. The Town provides services to its residents including street and road maintenance, street lighting and general government support. The Town's 2013 budget appropriations were \$956,000 funded primarily with real property taxes and State aid.

The Town is governed by an elected five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four council members. The Board is the legislative body responsible for overseeing the Town's operations, finances and overall management and adopting the annual budget. The current Supervisor has been in office since January 1, 2012. He is the chief fiscal officer and is responsible for providing financial reports to the Board. As the Town's budget officer, he is responsible for leading the budget process.

Objective

The objective of our audit was to examine the Town's budgeting practices. Our audit addressed the following related question:

- Did the Board's budget process accurately estimate the Town's needs and the means for financing them?

Scope and Methodology

We examined the Town's budgeting practices for the period January 1, 2012 through August 22, 2013. We extended the scope back to January 1, 2008 for trend analysis.

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.

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 initiate 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 was prepared and forwarded to our office with the Board's response letter, pursuant to Section 35 of the General Municipal Law. We encourage the Board to make this plan available for public review in the Clerk's office.

Budgeting Practices

The Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers that fund its operations. This responsibility requires Board members to balance the level of services desired and expected by Town residents with the ability and willingness of the residents to pay for such services. The Board must adopt structurally balanced budgets for all operating funds that provide for sufficient revenues to finance recurring expenditures, using accurate estimates of the Town's needs and the means of financing those needs. The Supervisor, as chief fiscal officer, is responsible for performing basic accounting functions, including maintaining accounting records and providing monthly financial reports to the Board. Financial reports enhance the Board's ability to oversee financial activities and monitor the Town's budget. Using these reports, the Board should formally amend the budget, as necessary, including both the expected cost and related financing sources.

General Municipal Law authorizes a local government to temporarily advance moneys held in a fund to another fund. The moneys temporarily advanced are to be repaid as soon as available but no later than the close of the fiscal year in which the advance was made.

The Board adopted budgets that did not accurately estimate the Town's operational needs. Specifically, we found that large capital purchases and improvements during the last five completed fiscal years were not budgeted for and the associated means of financing were not considered. Town officials purchased \$262,100 of equipment¹ and spent \$503,333 on capital improvements² to Town facilities. Additionally, in the current fiscal year, over \$590,000 was spent on the highway garage that the Board also did not budget for.³ Because the Board did not include these items in the budgets, the funding sources were not considered.

We reviewed budgets for the last five completed fiscal years and found that not only did the Board not budget for larger expenditures, but they also did not consider historical information while preparing the subsequent years' budgets. For example, the Town consistently

¹ Unbudgeted equipment purchases included \$81,981 for a loader and \$180,119 for a 10-wheel vehicle.

² Unbudgeted capital improvements included \$169,607 to purchase the previous highway garage, \$265,069 for an addition to the Town's medical center, and \$68,657 to begin construction of the new highway garage.

³ In the current fiscal year, the Town received Federal aid that partially offset the unbudgeted expenditure for the highway garage.

received more revenue than budgeted for franchise tax, sales tax and certain State aid.⁴

These poor budgeting practices led to operating deficits in certain years for the various funds. Specifically, the town-wide general fund had operating deficits in each of the past five years, as shown in Table 1.

| Table 1: Operating Surplus/(Deficits) | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|--------------|
| Town-Wide General | 2008 | 2009 | 2010 | 2011 | 2012 | Total |
| Actual Revenues | \$294,424 | \$281,716 | \$365,665 | \$218,976 | \$235,273 | \$1,396,054 |
| Actual Expenditures | \$404,926 | \$323,397 | \$393,539 | \$230,229 | \$350,655 | \$1,702,746 |
| Surplus/ (Deficit) | (\$110,502) | (\$41,681) | (\$27,874) | (\$11,253) | (\$115,382) | (\$306,692) |
| Part-Town General | 2008 | 2009 | 2010 | 2011 | 2012 | Total |
| Actual Revenues | \$31,610 | \$33,995 | \$36,139 | \$34,385 | \$38,121 | \$174,250 |
| Actual Expenditures | \$32,397 | \$34,709 | \$34,709 | \$34,989 | \$36,312 | \$173,116 |
| Surplus/ (Deficit) | (\$787) | (\$714) | \$1,430 | (\$604) | \$1,809 | \$1,134 |
| Town-Wide Highway | 2008 | 2009 | 2010 | 2011 | 2012 | Total |
| Actual Revenues | \$324,341 | \$254,275 | \$330,504 | \$313,622 | \$287,546 | \$1,510,288 |
| Actual Expenditures | \$237,989 | \$322,906 | \$474,378 | \$227,772 | \$245,993 | \$1,509,038 |
| Surplus/ (Deficit) | \$86,352 | (\$68,631) | (\$143,874) | \$85,850 | \$41,553 | \$1,250 |
| Part-Town Highway | 2008 | 2009 | 2010 | 2011 | 2012 | Total |
| Actual Revenues | \$397,010 | \$346,471 | \$369,979 | \$395,698 | \$362,678 | \$1,871,836 |
| Actual Expenditures | \$447,258 | \$372,736 | \$335,395 | \$353,557 | \$296,030 | \$1,804,976 |
| Surplus/ (Deficit) | (\$50,248) | (\$26,265) | \$34,584 | \$42,141 | \$66,648 | \$66,860 |

In addition, the town-wide general and highway funds each received transfers from part-town funds that are not allowed by law. In each of the last five completed fiscal years, \$4,000 was transferred from the part-town general fund to the town-wide general fund. In three of the last five completed fiscal years, moneys were transferred from the part-town highway fund to the town-wide highway fund, as follows: \$90,000 in 2008, \$40,000 in 2010 and \$50,000 in 2011. These transfers were from funds which have different tax bases; therefore, making these transfers resulted in a failure to maintain equity among taxpayers.

The Supervisor told us that he prepared the budget following the prior Supervisor's budget practices, which included both revenue and appropriation estimates. Further, Board members told us they did not consider fund balance or reserves as financing sources for large capital purchases and improvements, but knew that there was sufficient cash in the Town's bank accounts. Several Board members stated that they were unfamiliar with the concept of "fund balance." Moreover,

⁴ Based on 2013 projections, these trends still continue.

prior to our audit, the Board did not receive financial reports from the Supervisor with any information concerning fund balance or reserve funds, which would assist in budget-related decision making.

The Board's flawed budgeting process caused the Town's adopted budgets to be inaccurate and unrealistic. These inaccuracies could have resulted in significant operating deficits for the Town, which could have led to negative cash or negative fund balances. Fortunately, during our scope period, there were sufficient reserves and fund balance available to offset these inaccurate budgets. However, if this practice continues, the resources which the Town has relied on may not be available in the future.

Recommendations

1. The Board should adopt realistic budgets that consider both historical trends and future needs.
2. The Board should budget for future capital items including the cost and financing source.
3. The Board should modify budgeted appropriations as necessary and include specific financing sources for unbudgeted expenditures.
4. Town officials should cease inappropriate transfers between town-wide and part-town funds. The Board should repay the part-town general and highway funds going as far back as practicable, based on the available financial information.
5. The Supervisor should continue to provide the Board with a monthly financial report, including all receipts and disbursements and cash balances.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF AFTON

169 Main Street
Afton, NY 13730


Supervisor, John Lawrence (607)639-1071
Town Clerk, Rosemarie Klatz (607) 639-1071 - Fax (607)639-3375
Supt. of Highways-Lynn Shultis

December 9, 2013

**RESPONSE LETTER OF ACCEPTANCE TO THE STATE COMPTROLLER AUDIT
OF THE TOWN OF AFTON**

In the spirit of improving operation and Board governance, we feel the audit was both instructional and motivational. The budgeting process is a complex balance of known facts, estimated funds and constantly fluctuating situations.

The Afton Town Board has always strived to find a balance between services provided and cost to tax payers. This audit will serve as a learning tool to provide better services to the Town.

Sincerely, 

 John Lawrence
Supervisor Town of Afton

TOWN OF AFTON

169 Main Street
Afton, NY 13730

Supervisor, John Lawrence (607)639-1071

Town Clerk, Rosemarie Klatz (607) 639-1071 - Fax (607)639-3375

Supt. of Highways-Lynn Shultis

CORRECTION ACTION PLAN

- 1) The Board will adopt a budgeting practice of more closely aligning needs and trends.
- 2) The Board will budget for future capital items including cost and financial sources.
- 3) The Board will more closely align appropriations and funding sources.
- 4) The Board will work to keep different funds from commingling and as best as possible return funds to their proper levels.
- 5) Supervisor will continue to provide the Board with monthly financial report provided through the Town bookkeeper.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Town officials and employees, tested selected records, and examined pertinent documents for the period January 1, 2012 through August 22, 2013. We expanded our review back to 2008 for trend analysis. Our examination included the following:

- We interviewed Town officials and employees and reviewed monthly reports to the Board and Board minutes of monthly meetings to gain an understanding of their operations and budget practices.
- We verified that the adopted budgets for the fiscal years 2008 to 2012 were balanced and footed properly.
- We compared budget-to-actual reports for 2008 to 2012 with the adopted budgets for all four major funds (town-wide general, part-town general, town-wide highway, and part-town highway funds) and noted any differences. We then reviewed the minutes to determine the cause of the differences where possible.
- We compared the total revenues and expenditures on the most recent annual update document (AUD) with the total revenues and expenditures on budget-to-actual reports in each of the four major funds for 2012.
- For the most recent completed budget process (2013 budget, completed in late 2012), we compared the prior year's adopted budget and input from department heads and Board members with the summary sheet prepared by the Supervisor and with the adopted budget to determine the basis for the budget
- For the fiscal years 2008 to 2012, we compared the adopted budget with the budget-to-actual reports for the prior years in the four major funds.
- We reviewed budget-to-actual reports for the scope period to see if budget modifications are recorded in the accounting records.
- We identified all expenditure line items in budget-to-actual reports for the fiscal years 2008 to 2012 which were significantly over-expended for all four major funds.
- We noted how many line items on budget-to-actual reports are consistently being budgeted routinely, but which are never significantly expended, over how many years and what the unspent dollar amount was for the fiscal years 2008 to 2012 for all four major funds.
- We noted how many line items on budget-to-actual reports are consistently being budgeted for a standard revenue amount, which was not fully received, over how many years and noted what the dollar amount of that standard revenue was for the fiscal years 2008 to 2012 for all four major funds.

- We noted line items in budget-to-actual reports for 2008 to 2012 for the four major funds for which the Town receives 110 percent or more of revenue during a given year and the difference between the amount received and the amount budgeted. We also noted the number of line items and actual dollar amount for which no revenue was budgeted but for which money was received.
- We compared the amount of appropriated fund balance in a fund with the surplus or deficit for the four major funds for the fiscal years 2008 to 2012 and documented the ratio of unreserved fund balance to the next years' budgeted appropriations.
- We analyzed the balances of reserves and restricted fund balance for the four major funds for the fiscal years 2008 to 2012. We identified years in which significant capital expenditures were made but reserve funds did not decline in balance accordingly. When significant capital expenditures occurred, we compared the dollar amount of purchases with potential revenue sources.
- We reviewed interfund transfers for fiscal years 2008 to 2012 to determine their propriety.

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.

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