



Town of Arietta Budgeting

Report of Examination

Period Covered:

January 1, 2013 – June 30, 2016

2016M-308



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	2
BUDGETING	3
Operating Funds	3
Multiyear Planning	6
Recommendations	7
APPENDIX A Response From Local Officials	8
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2017

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 Arietta, entitled Budgeting. 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 Arietta (Town) is located in Hamilton County and has a population of approximately 305. The Town is governed by an elected five-member Town Board (Board), which is composed of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the receipt, disbursement and custody of Town moneys; maintaining accounting records; and providing financial reports to the Board. The Supervisor also serves as the Town's budget officer.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, public improvements, cultural activities and general government support. The Town's budgeted appropriations for the 2016 fiscal year were approximately \$2.6 million, funded primarily with real property taxes.

Objective

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

- Did the Board adopt budgets with realistic estimates for revenues and expenditures?

Scope and Methodology

We examined the Town's budgeting practices for the period January 1, 2013 through June 30, 2016.

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.

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 have initiated, or 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 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 Town Clerk's office.

Budgeting

The Board is responsible for accurately estimating revenues and appropriations in the Town's annual budget. The estimation of fund balance is an integral part of the budget process because the Board is responsible for retaining enough unrestricted fund balance¹ at the end of the year to provide a reasonable financial cushion for unexpected events and cash flow in the ensuing year. The Board may appropriate a portion of unrestricted fund balance as a financing source in the ensuing year's budget to reduce the tax levy. Accurate budget estimates help ensure that the amount of real property taxes levied is not greater than necessary. The development of a multiyear financial and capital plan can also assist the Board with the preparation of the budget and provide a framework for preparing future budgets.

The Board adopted unrealistic budgets for the general fund and highway fund during the 2013 through 2015 fiscal years. The Board overestimated appropriations by more than \$925,000 (33 percent) for the general fund and \$820,000 (33 percent) for the highway fund, and appropriated unneeded fund balance. The Board's budgeting practices made it appear that the Town needed to both raise taxes and use fund balance to close projected budget gaps. However, the general fund realized operating surpluses in each of the last three fiscal years, totaling \$456,597. Therefore, none of the appropriated fund balance was used and the general fund's unrestricted fund balance increased for the period.

In addition, the highway fund realized a \$42,801 operating surplus during the 2013 fiscal year and operating deficits of \$14,291 in 2014 and \$8,354 in 2015, which were smaller than planned. As a result, the Town used less than 3 percent of the appropriated fund balance during those three years and the highway fund's unrestricted fund balance increased. While we found that the 2016 budgeted appropriations for the general and highway funds were more realistic than in recent years, we still project that the Board has overestimated appropriations, which will likely result in the Town not using the entire appropriated fund balance.

Operating Funds

In preparing a realistic budget, the Board must accurately estimate revenues, expenditures and the amount of unrestricted fund balance that will be available at fiscal year-end, some or all of which may be used to fund the ensuing year's appropriations. After taking these factors into account, the Board establishes the expected tax levy

¹ Unrestricted fund balance is the total of the committed, assigned and unassigned fund balances.

necessary to fund operations. Revenue and expenditure estimates should be developed based on prior years' operating results and trends, anticipated future needs and available information related to projected changes in significant revenues or expenditures.

When fund balance is appropriated as a financing source, the expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the appropriated fund balance. Conversely, an operating surplus (when revenues exceed expenditures) increases the total year-end fund balance. Unneeded appropriated fund balance can mislead taxpayers because the budget indicates that fund balance will be used, when in fact those moneys are not being used to finance expenditures. Moreover, when appropriations are significantly higher than need be, there is a lack of financial control that should be provided with appropriate budgetary constraints on operations.

General Fund — We compared the Town's budgeted revenues and appropriations for the general fund with actual results of operations for the 2013 through 2015 fiscal years. While revenue estimates were realistic, the Board overestimated appropriations by more than \$925,000, or 33 percent (Figure 1).

	2013	2014	2015	Totals
Appropriations	\$1,266,673	\$1,230,032	\$1,219,819	\$3,716,524
Actual Expenditures	\$888,354	\$987,796	\$914,240	\$2,790,390
Overestimated Appropriations	\$378,319	\$242,236	\$305,579	\$926,134
Percentage Overestimated	43%	25%	33%	33%

Although the overestimated appropriations were spread among accounts throughout the budgets, the largest variances were for contractual expenditures.² These expenditures were overestimated during the three-year period by a total of more than \$323,000 (approximately 33 percent).

The Town's budgets also included a significant contingency appropriation³ to provide funding for unexpected events (\$106,000 for 2013, \$112,000 for 2014 and \$112,000 for 2015), which amounted to approximately 9 percent of budgeted appropriations each fiscal year. Although budget transfers totaling \$109,288 were made from

² Contractual expenditures include things such as supplies, utilities, insurance, professional services, etc.

³ A contingency appropriation account may be added to the Town's general fund budget to provide a cushion or safety net for unexpected events or where budget estimates prove unfavorable. No direct expenditures can be charged to this appropriation account. Instead, the balance is transferred to other appropriation accounts as needed.

the contingency appropriation to other appropriation accounts during the period, the Town did not need to use the contingency appropriation. Since other budget appropriations were overestimated, the budget transfers could have been made from those appropriation accounts. For example, \$49,188 in budget transfers were made from the contingency appropriation account during 2015 even though at the end of the 2015 fiscal year 70 other appropriation accounts had unexpended balances totaling \$232,792 when compared to the adopted budget.

In addition, during the same period, the Town’s general fund budgets included appropriated fund balance totaling \$456,310, which should have resulted in planned operating deficits. In reality, the Town’s budgetary practices resulted in operating surpluses in each of the last three years, totaling \$456,597. Therefore, none of the appropriated fund balance was actually used. This contributed to the general fund’s unrestricted fund balance increasing from \$1,068,082 as of December 31, 2012 to \$1,524,679 as of December 31, 2015, or 108 percent of the 2016 general fund adopted appropriations of \$1.4 million.

We reviewed the 2016 general fund budget estimates to determine whether budgeted revenues and appropriations were realistic. The budgeted revenues were realistic and budgeted appropriations were more realistic than in recent years, but we still project that the Board has overestimated appropriations. For example, we project that the Board has overestimated appropriations for retirement contributions by approximately \$15,000. In addition, the budget included a \$240,000 appropriation to replace the Town hall roof, but based on the bids received for this project, the Board decided not to replace it this year. The budget also again included a significant contingency appropriation of \$97,000, which we project will not be needed due to appropriations being overestimated throughout the budget. As a result, the Town will likely not use most, if any, of the \$369,378 in appropriated fund balance.

Highway Fund — We compared the Town’s budgeted revenues and appropriations for the highway fund with actual results of operations for the 2013 through 2015 fiscal years. While revenue estimates were realistic, the Board overestimated appropriations by more than \$820,000, or 33 percent (Figure 2).

Figure 2: Highway Fund – Overestimated Appropriations				
	2013	2014	2015	Totals
Appropriations	\$1,124,002	\$1,150,852	\$1,005,000	\$3,279,854
Actual Expenditures	\$871,353	\$801,740	\$784,719	\$2,457,812
Overestimated Appropriations	\$252,649	\$349,112	\$220,281	\$822,042
Percentage Overestimated	29%	44%	28%	33%

Although the overestimated appropriations were spread among accounts throughout the budgets, the largest variances were for personal services (salaries and wages) and contractual expenditures. Personal services were overestimated by a total of more than \$225,000 (25 percent). Contractual expenditures were overestimated by about \$220,000 (74 percent). The most significant contractual expenditure overestimated was for machinery, which was overestimated by \$122,327 (51 percent).

In addition, during the same period, the highway fund budgets included appropriated fund balance totaling \$918,546, which should have resulted in planned operating deficits in the same amount. However, because the Town overestimated appropriations, it realized an operating surplus of \$42,801 during the 2013 fiscal year, despite appropriating \$337,960 to finance operations. Furthermore, the Town realized operating deficits of \$14,291 in the 2014 fiscal year and \$8,354 in the 2015 fiscal year, despite appropriating fund balance to finance operations during those years of \$375,269 and \$205,317, respectively. Therefore, the Town used less than 3 percent of the total appropriated fund balance during this time. This contributed to the highway fund's unrestricted fund balance increasing from \$566,030 as of December 31, 2012 to \$586,186 as of December 31, 2015, or 55 percent of the 2016 highway fund adopted appropriations of \$1.1 million.

We reviewed the 2016 highway fund budget estimates. Budgeted appropriations were more realistic than in recent years, but we still project that they were overestimated. For example, we project that the Board has overestimated appropriations for personal services and contractual expenditures by approximately \$35,000 and \$30,000, respectively. As a result, the Town will not likely use much, if any, of the \$203,092 fund balance that was appropriated as a financing source in the budget.

The Board's practices of overestimating appropriations and appropriating fund balance that was not used have resulted in the accumulation and retention of unrestricted fund balance and the levy of taxes that were higher than necessary. We reviewed the 2017 general and highway fund adopted budgets and found that these budgeting practices have continued.

Multiyear Planning

Multiyear planning is a tool that towns can use to improve the budget development process. Effective multiyear financial plans project operating and capital needs and financing sources over a three- to five-year period. Planning on a multiyear basis allows Town officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current

budgeting decisions on future fiscal years. Any long-term plans should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that decisions are guided by the most current and accurate information available.

The Board did not develop a multiyear financial plan. Had such a plan been developed, the Board would have had a valuable resource that would have allowed it to make more informed financial decisions during the budget process, which may have prevented the accumulation and retention of unrestricted fund balance. Nonetheless, the development of a financial plan would be a useful tool for the Board to develop future budgets.

In addition, although the Town had a multiyear capital plan, the capital plan was not comprehensive because it only included future capital improvements for the Town-owned airport. Because the capital plan was not comprehensive, it lacked critical information that the Board would need to assess the impact that future capital expenditures would have on subsequent years' operating fund budgets.

Recommendations

The Board should:

1. Adopt budgets that include realistic estimates for appropriations.
2. During the year, compare actual financial results to the budget to monitor finances and become aware of budgetary modifications needed for future years.
3. Discontinue the practice of adopting budgets that result in the appropriation of fund balance that is not needed to finance operations.
4. Develop a comprehensive financial and capital plan and regularly monitor and update the plans.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Town of Arietta

PO Box 37
Piseco, New York 12139

Phone 518.548.3415
Fax 518.548.6203
Email rick@townofarietta.com

Date: Monday, April 03, 2017

Town of Arietta Official Response Office of the State Comptroller Audit of Town of Arietta Budgeting

Summary

The Town of Arietta Town Board discussed the preliminary findings of the Office of the State Comptroller's draft audit during a regularly scheduled Meeting on March 6th. An exit discussion was conducted March 9th with the Town Supervisor. And the audit's results and recommendations were discussed in greater detail at a Special Meeting of the Arietta Town Board on March 15th.

In general, *the Town Board is in overall agreement with the global findings and the recommendations presented in the preliminary audit report.* In fact, in our efforts to more effectively manage Town operations and better meet the expectations of our constituents, the Town Board had already recognized some of the same deficiencies in our budget processes and had already begun implementing improvements. In particular, with regard to appropriations and fund balance, the Town Board proactively initiated a retrospective analysis of previous budgets and identified factors that contributed to our fund balance surpluses as well as structured approaches to address them.

Comments of Local Officials and Corrective Action

Corrective actions are already in progress in the Town. The Town Board and current Superintendent of Highways conducted a comprehensive review of current machinery and equipment inventory. We are jointly in the process of developing a multiyear replacement and allocation plan. Our goal is to develop on an ongoing five-year basis an effective replacement schedule that identifies long-term needs that translate into specific capital requirements and realistic annual budget allocations.

We have also initiated the discussions in our efforts to develop the same long-term revenue trends and expenditure obligations for our town roads, buildings, and improving the airport plan in order to maintain compliance with that changing regulatory environment. Here again we are already working toward establishing comprehensive, realistic, maintenance and replacement schedules. Working committees were established to focus on requirements for the airport, for our buildings and our roads. The objective is not only to more adequately maintain and improve our roads and facilities, but as a benefit to our citizenry create a more transparent and effective annual cost forecast and revenue plan.

The members of the Town of Arietta Board acknowledge that certain deficiencies have existed in our budgetary process, and many were highlighted in the preliminary findings of the Office of the State Comptroller's draft audit. We had already initiated corrective actions, are in process of developing further controls, and are firmly committed to implementing comprehensive structural improvements to our fiscal operations. To that end we look forward to working with the Comptroller's Office and will certainly appreciate any assistance you may provide.

Respectfully,

Richard A. Wilt
Supervisor, Chief Fiscal Officer
Town of Arietta

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials to gain an understanding of the Town's budgeting practices and to determine whether the Town had financial and capital plans.
- We compared the general and highway funds' adopted budgets for fiscal years 2013 through 2015 with the actual results of operations to determine whether the budgets were realistic.
- We analyzed the general fund and highway fund financial records for fiscal years 2013 through 2015 to determine whether the appropriation of fund balance resulted in planned operating deficits and a decline in fund balance.
- We reviewed the adopted budget for the general fund and highway fund for fiscal year 2016 to determine whether budgeted revenues and appropriations were realistic based on historical data, supporting source documentation and actual results of operations through June 30, 2016.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313