



Town of Big Flats

Financial Management

Report of Examination

Period Covered:

January 1, 2010 — May 1, 2013

2013M-170



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
FINANCIAL MANAGEMENT	5
Budgeting and Fund Balance	5
Long-Term Planning	9
Recommendations	10
APPENDIX A Response From Local Officials	11
APPENDIX B Audit Methodology and Standards	13
APPENDIX C How to Obtain Additional Copies of the Report	14
APPENDIX D Local Regional Office Listing	15

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 Big Flats, entitled Financial Management. 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 Big Flats (Town) is located in Chemung County (County) and has a population of approximately 7,700. The Town is governed by a five-member Town Board (Board) consisting of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's operations, finances, and overall management. The Supervisor is the chief fiscal officer (CFO) and is responsible for maintaining a record of all receipts, expenditures, and account balances and for providing the Board with timely, accurate, and useful financial information. The Supervisor is assisted with these duties by her appointed bookkeeper. The Supervisor also is the Town's budget officer and is responsible for compiling the initial budget estimates and producing the tentative budget. The entire Board is responsible for adopting and monitoring the budget and ensuring the Town's sound financial position.

The Town provides various services to its residents including general administration, road maintenance and snowplowing, a parks and recreation center, and water, sewer, lighting, and fire protection services to residents of special districts within the Town. These services are financed primarily by sales tax, real property taxes, Justice Court revenues, State aid, water and sewer rents, and user fees. The Town's 2013 budgeted appropriations totaled approximately \$6.8 million.

Objective

The objective of our audit was to review the Town's financial management. Our audit addressed the following related question:

- Did the Board provide adequate oversight of the Town's financial operations?

Scope and Methodology

We examined the Town's fiscal management for the period January 1, 2010, to May 1, 2013.

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 findings and 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 the 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.

Financial Management

The Board is responsible for making sound financial decisions that are in the best interests 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. As a result, the Board must adopt structurally balanced budgets for all operating funds that provide for sufficient revenues to finance recurring expenditures. In addition, the Board must periodically monitor the annual budget with actual revenues and expenditures by reviewing interim financial reports prepared by the Supervisor and make adjustments accordingly. The Town may retain a reasonable portion of fund balance, referred to as excess unrestricted fund balance, to use as a financial cushion in the event of unforeseen financial circumstances. In the event that the Town accumulates excess unrestricted fund balance, the Board should adopt a policy to govern the level of excess unrestricted fund balance maintained by the Town, so that its use will comply with General Municipal Law (GML) and other purposes intended by the Board. It also is important that the Board develop multiyear plans to identify developing revenue and expenditure trends and to set long-term priorities and goals. Any long-term financial plans should be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

Even though the Board received monthly budget-to-actual reports from the Supervisor, it did not develop and adopt accurate budgets that were based on realistic estimates of revenues and expenditures. Additionally, the Board has not adopted a policy, and Town officials have not developed procedures, to govern the level of surplus funds maintained. As a result of the flawed budget process, the Town has accumulated excess unrestricted fund balances in the general and water funds. The general fund's excess unrestricted fund balance is 128 percent of the ensuing year's budget and the water fund's excess unrestricted fund balance is 75 percent of the ensuing year's budget. Furthermore, the Board's poor budgeting has generated operating surpluses of almost \$1.86 million in the general fund. Therefore, the Board has unnecessarily levied taxes.

Budgeting and Fund Balance

In preparing the budget, it is important for the Board to develop realistic revenue and expenditure estimates, along with an estimate of available fund balance at fiscal year-end. Fund balance represents moneys accumulated from prior fiscal years. The Town may retain a reasonable level of excess unrestricted fund balance to provide cash flow and as a financial cushion in the event of unforeseen financial

circumstances. Each town needs to assess what is reasonable for its particular situation, considering various factors such as timing of receipts and disbursements, volatility of revenues and expenditures, and contingency appropriations. Town officials can also legally set aside, or reserve, portions of fund balance to finance future costs for a specified purpose, or can designate excess unrestricted fund balance to help finance next year's budget or to be retained for future use. If fund balance is retained at excessively high levels, moneys that could benefit the Town are not being used, thereby placing an unnecessary burden on the taxpayers. Therefore, it is important that the Board adopt policies and Town officials develop budgeting procedures to ensure that revenue and expenditure estimates are realistic, so that the amount of fund balance accumulated is reasonable and, therefore, taxes and user charges do not exceed necessary amounts.

The Board did not develop sound budgets based on actual current needs and/or past activity and did not monitor the budgets against actual results of operations during the year. Instead, the Board has increasingly underestimated revenues (Table 1) and overestimated appropriations (Table 2) in its major funds over the last three years. The Board's poor budgeting practices resulted in operating surpluses and excessive unrestricted fund balance. Furthermore, the Board raised taxes and issued debt that was largely unnecessary.

Table 1: Budget vs. Actual – Revenues				
General Fund	2010	2011	2012	Totals
Budget	\$2,254,607	\$2,213,245	\$2,096,645	\$6,564,497
Actual	\$2,788,299	\$2,935,688	\$2,851,769	\$8,575,756
Variance	(\$533,692)	(\$722,443)	(\$755,124)	(\$2,011,259)
Highway Fund	2010	2011	2012	Totals
Budget	\$1,556,000	\$1,564,700	\$1,792,500	\$4,913,200
Actual	\$1,618,657	\$1,727,745	\$2,005,975	\$5,352,377
Variance	(\$62,657)	(\$163,045)	(\$213,475)	(\$439,177)
Water Fund	2010	2011	2012	Totals
Budget	\$558,782	\$562,176	\$567,243	\$1,688,201
Actual	\$592,535	\$618,590	\$610,542	\$1,821,667
Variance	(\$33,753)	(\$56,414)	(\$43,299)	(\$133,466)

The most consistently underestimated revenues in the 2010 to 2012 general fund budgets were in the sales tax revenue estimates totaling approximately \$1.44 million. The Board also underestimated State Consolidated Local Street and Highway Improvement Program revenues by \$69,869 from 2010 to 2012 and inter-fund transfers by \$284,057 in the 2011 to 2012 highway fund budgets. In the 2010 to 2012 budgets for the Town's four water districts, the Board

underestimated metered water sales totaling \$47,424 and unmetered water sales totaling \$26,138.

In addition to inaccurately estimating revenues, the Board did not consistently or accurately estimate appropriations¹ in its major funds from 2010 to 2012. Overall, total appropriations for all funds were underestimated (Table 2).

Table 2: Budget vs. Actual – Expenditures				
General Fund	2010	2011	2012	Totals
Budget	\$2,627,972	\$2,373,260	\$2,489,380	\$7,490,612
Actual	\$2,263,346	\$1,898,567	\$2,557,894	\$6,719,807
Variance	\$364,626	\$474,693	(\$68,514)	\$770,805
Highway Fund	2010	2011	2012	Totals
Budget	\$1,561,513	\$1,733,187	\$1,866,223	\$5,160,923
Actual	\$1,662,819	\$1,849,334	\$1,601,279	\$5,113,432
Variance	(\$101,306)	(\$116,147)	\$264,944	\$47,491
Water Fund	2010	2011	2012	Totals
Budget	\$659,081	\$725,769	\$733,550	\$2,118,400
Actual	\$499,124	\$1,064,845	\$668,188	\$2,232,157
Variance	\$159,957	(\$339,076)	\$65,362	(\$113,757)

The inaccurate expenditures estimates for 2010 to 2012 were attributed mainly to overestimated employee benefits totaling \$533,012 in the general fund and \$111,359 in the highway fund, and underestimated permanent improvements in the highway fund totaling \$377,657 in 2010 and 2011. In 2012, these permanent improvements were overestimated in the highway fund by \$55,000. The Board also included \$250,000 for contingencies in the general fund that were never needed or used. Normally, including an appropriation for contingencies is a prudent budget practice; however, in this case, with so much available fund balance to provide a cushion against unforeseen events, the contingent account is not needed.

Town officials told us that it has been the Board’s practice to budget conservatively, especially for sales tax revenue, in the event that the County decides to change the allocation of sales tax to the towns in the future. This is not a valid reason to raise additional property taxes because the budget officer should be checking with the County about estimated sales tax revenue as part of the budget development process.

¹ Budgeted expenditures are appropriations. GML requires that the Board ensure that an appropriation is established and available prior to the Town making an expenditure.

The Board’s deficient budgeting practices and failure to monitor budgets against actual results of operations during the year has resulted in the accumulation of excess unrestricted fund balances in the general and water funds. The general fund’s unrestricted fund balance is 128 percent of the ensuing year’s budget and the water fund’s unrestricted fund balance is 75 percent of its ensuing year’s budget (Table 3).²

Fiscal Year End	General Fund	Percent	Water Fund	Percent
2010	\$1,960,773	83%	\$638,736	88%
2011	\$3,004,024	121%	\$570,358 ^a	78%
2012	\$3,290,782	128%	\$586,615	75%

^a Additional unassigned fund balance of \$135,755 was used for painting the water storage tanks. However, this was not a budgeted item; therefore, the Board did not give residents an opportunity to vote on this public works project.

Furthermore, the poor budgeting has generated operating surpluses of almost \$1.86 million in the general fund. However, at the same time, the Town’s real property taxes have essentially remained at the same level from 2010 to 2013.³ Therefore, the Board has unnecessarily levied taxes.

While the Town has excess unrestricted fund balances in the general and water funds, the Board has not adopted a policy, and Town officials have not developed procedures, to govern the level of excess unrestricted fund balance maintained by the Town. From 2010 to 2012, the Board attempted to reduce the general and water funds’ excess unrestricted fund balances by appropriating fund balance for planned deficits. The Town appropriated more than \$926,000 for the general fund and \$430,000 for the water fund to use for planned deficits; however, none was used in the general fund to fund operations and only \$58,000 was used in the water fund. Although these budgeting practices were slightly successful in lowering the water fund’s fund balance, the Board’s poor budgeting of general fund operations resulted in additional fund balance increases of 133 percent instead of the planned reduction.

² The water fund comprises four individual water districts, all of which had excess unrestricted fund balances ranging from 62 to 95 percent of the ensuing year’s budgets.

³ The Town was within the 2 percent tax cap limit for both 2012 and 2013, but the Board passed local laws in both years to override the tax cap. The 2013 adopted levy was \$2,094,338, which was \$141,588 less than the Town’s limit. The 2012 levy was \$2,117,427, which was \$46,367 less than the Town’s limit.

The Board also attempted to reduce the general fund's fund balance from 2010 to 2012 by making transfers to the debt service fund totaling \$2 million⁴ and the highway fund totaling \$284,000,⁵ which were not included in the adopted budget. Town officials told us that the transfers to the debt service fund were intended to pay for future debt payments on the Town's public improvement bonds.⁶ Because the money transferred to the debt service fund was not placed in a reserve and was not needed for current debt payments, it was additional fund balance which could have been used to reduce taxes. Approximately \$370,000 of the \$2 million was used to pay annual bond payments in 2011 and 2012, which resulted in a remaining balance of more than \$1.4 million in the debt service fund as of December 31, 2012.

For 2013, the Board continued the same budgeting practices. Its only change was to include the annual unbudgeted \$140,000 transfer from the general fund in the highway fund budget. By maintaining excessive fund balances and continuing faulty budgeting practices that generate repeated operating surpluses, the Board has withheld significant funds from productive use, levied unnecessarily high taxes, and compromised the transparency of Town finances to the taxpayers.

Long-Term Planning

An important Board oversight responsibility is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important that the Board develop comprehensive, multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs. Effective multiyear 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 and set long-term priorities and goals. It also allows them to assess the impact and merits of alternative approaches to financial issues, such as accumulating money in reserve funds and using fund balance to finance operations. It is essential that any long-term financial plans are monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board did not develop a comprehensive, multiyear financial and capital plan, and it did not have any other mechanism in place to adequately address the Town's long-term operational and capital

⁴ The Board approved a transfer of \$1.5 million in December 2009, which was prior to our audit period, and an additional \$500,000 in December 2012.

⁵ The Board approved a transfer of \$142,000 in 2011 and another \$142,000 in 2012. However, these were not budgeted transfers of monies. Town officials told us that these funds were intended to pay for additional work not initially planned for.

⁶ The bonds had an outstanding balance of \$2,980,000 as of December 31, 2012.

needs. Such plans would be a useful tool for the Board to address the large fund balance in the general fund.

In developing a plan, the Board also could address creating a reserve fund for the payment of bonded indebtedness to use for appropriately transferring funds to pay for future debt, rather than transferring large sums of money improperly to a debt service fund and “parking” excess funds not needed currently. In addition, the Board could evaluate the water fund’s capital and repair reserves of more than \$370,000 for future needs, so that funding and use of the reserves are based on planned improvements.

Accumulating excess funds, without formally establishing reserves to restrict the use of the funds allows subsequent administrations to use the fund balance for purposes other than what this and previous Boards intended. Also, the Board’s failure to use reserve funds for their intended purpose and, instead, budgeting for these expenditures through the tax levy places an unnecessary burden on taxpayers.

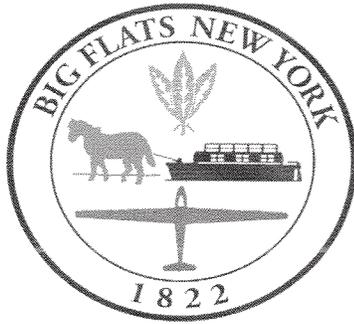
Recommendations

1. The Board should adopt budgets with realistic estimates of anticipated revenues, expenditures, and fund balance available for appropriation.
2. The Board should adopt a fund balance policy governing the level of unexpended surplus funds to be maintained in the Town’s operating funds and develop a formal plan to reduce the unexpended surplus funds in the general and water funds.
3. If the Board believes it is necessary to accumulate money for a future purpose, it should consider formally establishing authorized reserves. Otherwise, officials should use the unexpended surplus funds in another manner that would benefit taxpayers. Such uses could include, but are not limited to, financing one-time expenses and reducing property taxes.
4. The Board should develop and adopt a comprehensive multiyear financial and capital plan to establish the goals and objectives for funding long-term operating and capital needs. The plan should be monitored and updated on an ongoing basis.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF BIG FLATS

476 Maple Street
Big Flats, NY 14814
www.bigflatsny.gov

October 15, 2013

Edward V. Grant, Jr., Chief Examiner
State of New York
Office of the State Comptroller
16 W. Main Street, Suite 522
Rochester, NY 14614

RE: **Draft** Town of Big Flats, Financial Management Report of Examination
Period Covered: January 1, 2010 – May 1, 2013
2013M-170

Dear Mr. Grant:

On behalf of the Town of Big Flats Town Board, I would like to thank you and your staff for the time, dedication and professionalism in conducting our audit. We feel that the audit was fair and accurate. During the period covered in this report, there were attempts to make best practice estimates for revenue and expenditures; however, with Chemung County located close to the Pennsylvania border, we were not able to determine accurate estimates.

With a better understanding of amending our budgets without hindering next years budget and reserve accounts, we will be taking appropriate actions to correct these concerns. A correction action plan will be forthcoming.

Again, thank you for your time and dedication to New York State.

Sincerely,

TOWN OF BIG FLATS

Teresa M. Dean
Town Supervisor

cc: Bookkeeper
Town Clerk
Town Board

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, 2010, through May 1, 2013.

To accomplish our financial condition audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed Town officials and employees to gain an understanding of financial operations.
- We reviewed Town resolutions for reserves.
- We obtained an understanding of the Town's internal control environment and specific controls that are significant to the Town's budget process and reviewed the Town's adopted budgets for 2010 to 2013 and the use of appropriated fund balance for 2010 to 2012.
- We reviewed financial reports and accounting records for 2010 to 2012.
- We analyzed revenue and expenditure trends for the operating funds, debt service fund, and water fund for 2010 to 2012.
- We reviewed reserve funds and unrestricted fund balance compared to ensuing years' appropriations for 2010 to 2012.
- We reviewed the minutes of the Board's proceedings during our audit period.

We conducted this performance audit in accordance with generally accepted government auditing standards (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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Gabriel F. Deyo, Deputy Comptroller
Nathaalie N. Carey, Assistant Comptroller

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