



Town of Stanford

Financial Condition

Report of Examination

Period Covered:

January 1, 2012 — January 31, 2013

2013M-225



Thomas P. DiNapoli

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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 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 Stanford, 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 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 Stanford (Town) is located in Dutchess County and has a population of approximately 3,800. The Town is governed by a Town Board (Board) that comprises a Town Supervisor (Supervisor) and four elected Board members. The Supervisor serves as the chief executive officer and chief financial officer. The Board is responsible for the general management and control of the Town's financial affairs. The Board appointed a part-time comptroller to assist with maintaining the Town's accounting records.

The Town's general fund appropriations for the 2013 fiscal year totaled \$1.2 million. The Town's expenditures were funded primarily with revenues from real property taxes, sales tax, and State aid.

Objective

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

- Is the Board providing adequate oversight and management of the Town's budget and financial operations?

Scope and Methodology

We examined the Town's financial condition and budgeting practices for the period January 1, 2012, to January 31, 2013. We extended our audit period back to January 2009 to provide additional information for perspective and background.

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 indicated that they planned to take corrective action.

The Town 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 Town Board to make this plan available for public review in the Clerk's office.

Financial Condition

An essential component of the Board's duties and responsibilities is to make sound financial decisions that are in the best interest of the Town and the taxpayers that fund its operations. This responsibility requires the Board to balance the level of services desired and expected by residents with the ability and willingness of the residents to pay for such services. Therefore, it is essential that the Board adopt budgets that include realistic estimates of revenues and expenditures. Underestimating revenues and/or over-estimating expenditures could result in the collection of more real property taxes than are necessary. Prudent fund balance management, including unexpended surplus funds,¹ is also necessary to sustain operations, by providing the flexibility to address unexpected occurrences and satisfy long-term obligations or future expenditures. In addition, long-term planning can help reduce taxes by preparing for capital needs and increases to expenditures due to inflation. Such a plan would enable the Board to project fund balance needs over the length of the plan.

The Town's budgets from fiscal years 2009 through 2012 were unrealistic. Total actual revenues during this period were approximately \$1.3 million more than budgeted revenues, and total expenditures during this period were \$340,669 less than appropriations. These unrealistic budgets caused unexpended surplus fund balance to increase significantly. At the end of 2010, the Town had \$2.7 million in unexpended surplus fund balance, which was more than double the ensuing year's appropriations. Further, at the end of fiscal year 2012, the Town had \$1.3 million of unexpended surplus fund balance, which was projected to remain above 100 percent of the 2013 fiscal year's appropriations. The Town continues to levy taxes unnecessarily, even though it has excessive fund balance. Further, the Board has not developed a multiyear plan for the use of fund balance. These actions compromise transparency and accountability, and are not in the best interest of Town taxpayers.

Budget

An annual budget is the document that details the Town's projected revenues and expenses for the fiscal year and serves as the spending

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

authority for Town officials. The Board must ensure that budgets are prepared and adopted based on reasonable and accurate assessments of expenses and the resources used to fund them. The budget is essential for the financial planning, control, and evaluation process of local governments. The budget also serves as a way to communicate to taxpayers the manner in which officials plan to spend their tax dollars. Estimates based on valid assumptions can help ensure that the real property tax levy is not more than necessary. To adequately monitor the budget, the Board should regularly review financial reports, compare budgeted revenues and appropriations to actual results, ensure there is reasonable fund balance, and make appropriate decisions based on that information.

We reviewed the Town’s general fund budgets from fiscal years 2009 through 2012 and found that the Board consistently underestimated anticipated revenues. The Town’s actual revenues ranged from \$289,872 to \$378,013 – or 26 percent to 35 percent – more than the amount budgeted, as indicated in Table 1. Total actual revenues during this period were \$1,298,810 – or 30 percent – more than total budgeted revenues.

Table 1: Budget vs. Actual Revenues				
Fiscal Year	Budget	Actual	Revenue Received in Excess of Budget Estimate	
			Difference	Percent Over Budget
2009	\$1,129,466	\$1,458,152	\$328,686	29%
2010	\$1,094,464	\$1,472,477	\$378,013	35%
2011	\$1,019,606	\$1,309,478	\$289,872	28%
2012	\$1,140,949	\$1,443,188	\$302,239	26%
Total	\$4,384,485	\$5,683,295	\$1,298,810	30%

Under-estimated budgeted revenues included franchise fees, forfeitures and bail, and sales tax distributed by the County. For example, in the 2009, 2010, and 2012 fiscal years, the Board budgeted \$125,000 for sales tax revenues and budgeted \$100,000 in 2011, even though the Town received revenues between 42 percent and 110 percent more than was budgeted.

Table 2: Sales Tax				
Fiscal Year	Budget	Actual	Difference	Percent Over Budget
2009	\$125,000	\$177,368	\$52,368	42%
2010	\$125,000	\$191,890	\$66,890	54%
2011	\$100,000	\$210,111	\$110,111	110%
2012	\$125,000	\$209,066	\$84,066	67%

Certain Board members stated that the prior bookkeeper had suggested they be conservative in their revenue budget estimates. However, it is important to prepare the budget using realistic estimates based on the most current and accurate information available so that only the necessary amount of property taxes is levied.

Conversely, the Board over-estimated appropriations for fiscal years 2009 through 2011. Estimated appropriations for the 2012 fiscal year were more reasonable than in previous years.

Table 3: Appropriations vs. Actual Expenditures^a

Fiscal Year	Appropriations	Actual	Difference	Percent Under Budget
2009	\$1,176,716	\$1,029,201	\$147,515	13%
2010	\$1,200,464	\$1,111,699	\$88,765	7%
2011	\$1,223,317	\$1,152,265	\$71,052	6%
2012	\$1,140,949	\$1,107,612	\$33,337	3%

^a Actual expenditures do not include transfers to other funds.

The Town's unrealistic budgets created excessive unexpended surplus fund balance which far exceeded operating needs. Unexpended surplus fund balance increased from about \$2.6 million at fiscal year-end 2009 to \$2.7 million at fiscal year-end 2010. During 2011 and 2012, unexpended surplus fund balance declined due to approximately \$2 million in transfers to the capital fund for the highway garage capital project. However, Town officials did not properly include these transfers in the budgets presented to taxpayers.

Table 4: Surplus Fund Balance

	FY 2009	FY 2010	FY 2011	FY 2012
Beginning Fund Balance	\$2,247,891	\$2,669,362	\$2,901,481	\$1,486,817
Revenues ^a	\$1,458,152	\$1,472,477	\$1,309,478	\$1,443,188
Expenditures	\$1,029,201	\$1,111,699	\$1,152,265	\$1,107,612
Less: Transfers to Other Funds	\$7,480	\$128,659	\$1,571,877	\$289,809
Operating Surplus/(Deficit)	\$421,471	\$232,119	(\$1,414,664)	\$45,767
Less: Fund Balance Appropriated for the Next Year's Operations	\$106,000	\$203,711	\$0	\$202,041
Unexpended Surplus Fund Balance at Year End	\$2,563,362	\$2,697,770	\$1,486,817	\$1,330,543

^a Revenues included transfers from other funds.

While it is good business practice to maintain a reasonable level of unexpended surplus fund balance for emergency situations, maintaining a fund balance amount that is equal to the Town's budgeted expenditures is excessive. The Board did not adopt realistic budgets, which allowed the Town to accumulate excessive

unexpended surplus fund balance without a designated purpose or a plan for the additional accumulations. Although the Board believed it was effectively managing the Town's financial condition, the adopted budgets continually included under-estimated revenues. As a result, in the two-year period from 2009 to 2010, the Town had accumulated unexpended surplus fund balance that was more than twice the amount of the ensuing years' budgets.

While Town officials reduced fund balance in 2011 and 2012 by transferring funds for the highway garage capital project, they did not include such transfers in the budgets presented to the taxpayers. As such, the taxpayers did not have information concerning this use of their tax money. A more transparent and appropriate method of funding this capital project would have been to estimate overall revenues and appropriations more accurately, and include a specific budgetary appropriation for the capital project.

We also reviewed the Town's 2013 budgeted revenues and appropriations and determined that they, too, appeared unreasonable. We estimate that the Town will end the year with an operating surplus of approximately \$500,000. Because Town officials appropriated \$200,000 in unexpended surplus funds to finance the ensuing year's budget, we estimate that the Town's unexpended surplus funds will likely increase by about \$300,000. As such, the Town's unexpended surplus funds will remain excessive.

Multiyear Financial Plan

Multiyear capital planning can help a local government to coordinate projects and acquisitions, and schedule orderly replacement or rehabilitation of existing assets. After formulating appropriate projections, the Board can use this information to make well-reasoned and supported decisions regarding services to be provided and how best to fund identified capital needs. The practice of planning ahead and saving incrementally for expected future events is prudent management and helps local governments reduce or eliminate interest and other costs associated with debt issuances. The Board can establish (and fund) reserve funds to accumulate cash for future capital outlays and other nonrecurring expenditures, and should establish a reasonable target fund balance.

Although the Town has a master plan which covers future development of the Town, it does not identify current or future projects or spending plans for capital projects. Therefore, the Board has not developed a multiyear financial plan and continues to accumulate fund balance without a plan for using the funds.

Recommendations

1. The Board should adopt realistic budgets that include the Town's actual needs based on historical trends or other identified needs.

2. Town officials should develop a multiyear financial plan which includes the planned use of the unexpended surplus fund balance in a manner that benefits Town taxpayers and provides appropriate transparency through the budget process. Such uses could include, but are not limited to, reducing the Town's property taxes, funding one-time expenditures, or establishing necessary reserves.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



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Supervisor
Town of Stanford
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10 October 2013

Office of the State Comptroller
Division of Local Government and School Accountability
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear [REDACTED]:

In response to the draft audit report of the Town of Stanford entitled "Town of Stanford: Financial Conditions", both I and the Town Board have reviewed the draft audit and agree with the OSC findings that the Town has an Unappropriated Fund Balance that is excessive and not in the best interest of the Town's taxpayers.

Looking at budgeted vs. actual expenditures and budgeted vs. actual revenues, it is clear that expenditures have been over-estimated and revenues have been under-estimated resulting in a Fund Balance that is overly large.

The Supervisor and the town Board will focus on preparing an annual budget for 2014 that will begin to correct these imbalances.

Once the final audit is made public by the OSC, the Supervisor and the Town Board will submit a Corrective Action Plan (CAP) to the State Comptrollers Office.

This CAP will include steps necessary to reduce the amount of unexpended Fund Balance each year, to make the budgeting process more transparent to the taxpayers, and to ensure a sufficient amount of Fund Balance to protect the Town in the case of emergencies and unpredictable disasters.

I would like the CAP to include:

1. The creation of more realistic annual budgets based on the history of actual expenditures and revenues in past years.
2. The establishment of two (2) reserve accounts for 1)capital improvements and 2)vehicle replacement that will ensure that these expenses will be open and transparent for the taxpayers.

3. To prepare capital project plans for both foreseeable capital projects and vehicle replacement that will determine how much should be budgeted to these reserve accounts each year to meet the Town's expected needs.
4. To prepare multi-year financial plans so that both the General Budget and Highway Budget will be budgeted with an eye to the calculated and planned needs of the Town and so that large capital and vehicle expenditures will be saved for.
5. To use Fund Balance for one-time expenses if the Fund Balance is still excessive.
6. Lastly, to use Fund Balance to reduce property taxes as long as an excessive amount remains.

When the CAP is detailed and approved by the Town Board, I look forward to the Town maintaining a Fund Balance of about 30% - 40% of the total budget to ensure that the Town will be able to meet unexpected emergency and disaster costs while not over-taxing the residents.

I thank the OSC for the thoroughness, professionalism and focused interviews throughout the audit process and for the quality, clarity and helpfulness of the draft report.

Sincerely,

Virginia Stern,
Supervisor
Town of Stanford

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Town's financial condition. To accomplish the objective of our audit, we performed the following steps:

- We interviewed Board members and reviewed the Board minutes to gain an understanding of the Town's budget development, monitoring procedures, and control processes.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund for the fiscal years 2008 to 2012.
- We reviewed adopted budgets for the fiscal years 2009 to 2013.
- We compared the general fund cash balances to fund balances and equity from January 1, 2008, to December 31, 2012.
- We compared the budgeted revenues and appropriations to the actual revenues and expenditures from January 1, 2009, to December 31, 2012.
- We compared the budgeted revenues and appropriations for budget years 2012 and 2013 for reasonableness.
- We verified fund balance, budget to actual results, and operating results, and we calculated fund balance as a percentage of the ensuing years' budgeted appropriations.
- We reviewed the Town's Master Plan for current and future capital projects.

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.

APPENDIX C

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