



# Town of Cornwall

## Financial Condition

### Report of Examination

Period Covered:

January 1, 2011 — December 31, 2013

2014M-123



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

August 2014

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 Cornwall, 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 Cornwall (Town) is located in Orange County and serves approximately 12,600 residents. The Town provides services for its residents, including highway, water, sewer, sanitation and general government support. Expenditures are accounted for in the general (town-wide and part-town), highway (town-wide and part-town), water, sewer and refuse and garbage funds.

The Town is governed by the Town Board (Board) which comprises the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor, who serves as the Town's chief financial officer, is responsible, along with other administrative staff, for the day-to-day management of the Town under the Board's direction. The Town's total budgeted appropriations for 2013 were approximately \$11 million, which were funded primarily with real property taxes, mortgage tax, sales tax, user charges and State aid.

## Objective

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

- Does the Board adopt budgets that are structurally balanced to maintain the Town's financial stability?

## Scope and Methodology

We examined the Town's financial condition for the period January 1, 2011 through December 31, 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 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 findings and recommendations and indicated they plan 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 Condition

The Board is responsible for making sound financial decisions that are in the best interests of the Town and its taxpayers. The Board must adopt realistic, structurally balanced budgets that provide for sufficient recurring revenues to finance recurring expenditures. An important aspect of budget preparation includes a reasonable estimate of the amount of fund balance that will be available at the end of the fiscal year. It is prudent to maintain enough unexpended surplus funds to protect against unforeseen circumstances or to budget conservatively. Additionally, detailed multiyear plans allow officials to set long-term priorities and work toward goals, rather than making choices based only on the needs of the moment.

The Board routinely adopted budgets that did not provide sufficient revenues to fund expenditures and relied on fund balance to finance operations. As a result, fund balance declined in the general town-wide, highway town-wide, refuse and garbage and water funds. The Town-wide general fund balance decreased by approximately \$399,000 (55 percent) during our audit period. In addition, the Board adopted budgets that appropriated funds in excess of fund balance, which caused the refuse and garbage fund to have a \$17,053 deficit in 2012 and a \$14,090 deficit in 2013 and the highway town-wide fund to have a \$13,654 deficit in 2013. The Board has not developed a multiyear financial and capital plan to address the Town's long-term priorities.

### **Fund Balance and Budgeting**

Maintaining a reasonable level of fund balance is a key element of effective long-term financial planning. It is important for the Board to adopt a policy that addresses the level of unexpended surplus funds to be maintained. The Board must adopt structurally balanced budgets for all operating funds that provide for sufficient revenues to finance recurring expenditures. However, a local government with unexpended resources from prior years may choose to appropriate some of its fund balance to offset a planned imbalance between estimated revenues and expenditures (planned operating deficit). These are acceptable budgeting practices when a local government has accumulated an adequate level of surplus fund balance. However, when a local government appropriates too much fund balance or has operating deficits each year, it gradually depletes the unrestricted fund balance until it turns into a deficit fund balance, thereby leaving nothing available to be used for unforeseen events or financing successive budgets.

The Board did not adopt structurally balanced budgets for the Town's operating funds from 2011 to 2013. Town officials told us that the Board chose to appropriate surplus funds in the budgets for its operating funds during our audit period – rather than balancing the funds' budgets to provide for sufficient revenues to finance recurring expenditures – to keep property tax levels low and, in the latter years, comply with the property tax cap. However, because the Board did not accurately estimate the amounts of unrestricted, unappropriated fund balance that would be available at the end of each fiscal year, three of the Town's operating funds experienced significant declines in available fund balance and/or deficits.

Town-Wide General Fund – The Board planned operating deficits for the town-wide general fund's budget for the 2011, 2012 and 2013. As a result, the town-wide general fund experienced three years of operating deficits of \$100,935 in 2011, \$206,666 in 2012 and \$91,627 in 2013. The town-wide general fund's fund balance decreased from \$731,526 in the beginning of 2011 to \$332,298 at the end of 2013 (Table 1).

Table 1: Town-Wide General Fund – Operating Results and Fund Balance			
	2011	2012	2013
Beginning Fund Balance	\$731,526	\$630,591	\$423,925
Plus: Operating Surplus/(Deficit)	(\$100,935)	(\$206,666)	(\$91,627)
Ending Fund Balance	\$630,591	\$423,925	\$332,298
Less: Appropriated Fund Balance	\$465,000	\$400,000	\$105,000
Unrestricted, Unappropriated Funds at Year End	\$165,591	\$23,925	\$227,298

To offset the planned operating deficits, the Board annually appropriated between \$105,000 and \$465,000 in fund balance to partially fund operations. This caused the town-wide general fund's surplus funds to decrease to a low of \$23,925 in 2012.

The Board did not adopt a policy that addresses the level of unexpended surplus funds to be maintained. Therefore, it had no plan or guidance to follow when making the determination to reduce available fund balance to this low level in 2012. With such a small amount of unrestricted, unappropriated fund balance, the Town was at risk of financial instability and may not have had enough fund balance if an emergency occurred. The town-wide general fund unassigned fund balance showed improvement in the 2013 fiscal year.

Refuse and Garbage Fund – The Board planned operating deficits for the refuse and garbage fund's budget for 2011, 2012 and 2013. As a result, this fund experienced three years of operating deficits of

\$53,931 in 2011, \$50,449 in 2012 and \$97,037 in 2013. However, unlike the town-wide general fund, the refuse and garbage fund did not have any surplus funds remaining at the end of the 2012 and 2013 fiscal years, which caused this fund to have a \$17,053 deficit at the end of 2012 and a \$14,090 deficit at the end of 2013 (Table 2).

<b>Table 2: Refuse and Garbage Fund – Operating Results and Fund Balance</b>			
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Beginning Fund Balance	\$187,327	\$133,396	\$82,947
Plus: Operating Surplus/(Deficit)	(\$53,931)	(\$50,449)	(\$97,037)
Ending Fund Balance	\$133,396	\$82,947	(\$14,090)
Less: Appropriated Fund Balance	\$100,000	\$100,000	\$0
Unrestricted, Unappropriated Funds at Year End	\$33,396	(\$17,053)	(\$14,090)

To offset the planned operating deficits, the Board appropriated \$100,000 in fund balance in 2011 and 2012 to fund budgetary appropriations. However, in 2012, the refuse and garbage fund did not have \$100,000 of available unrestricted, unappropriated fund balance, which caused this fund to have a \$17,053 deficit at the end of the fiscal year. Because the Board planned a \$97,037 operating deficit for 2013, the refuse and garbage fund ended 2013 with a \$14,090 deficit.

Appropriating funds that are not available will adversely affect the Town's financial condition to a point where the Town may have to raise taxes or cut services.

Highway Town-Wide Fund – The Board planned an operating deficit for the highway town-wide fund's budget for 2011. As a result, the fund experienced an operating deficit of \$20,016 in 2011 (Table 3).

<b>Table 3: Highway Town-Wide – Operating Results and Fund Balance</b>			
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Beginning Fund Balance	\$46,205	\$26,189	\$28,401
Plus: Operating Surplus/(Deficit)	(\$20,016)	\$2,212	(\$22,055)
Ending Fund Balance	\$26,189	\$28,401	\$6,346
Less: Appropriated Fund Balance	\$20,000	\$0	\$20,000
Unrestricted, Unappropriated Funds at Year End	\$6,189	\$28,401	(\$13,654)

In 2013, the highway town-wide fund experienced an unplanned operating deficit of \$22,055, which left the fund with \$6,346 in available unrestricted, unappropriated fund balance. However, the



Board appropriated \$20,000 in the 2014 adopted budget, which caused the highway town-wide fund to end 2013 with a \$13,654 deficit. Because the Board did not accurately estimate available surplus funds, taxpayers may have to pay a greater amount of property taxes to return this fund to fiscal stability.

On March 11, 2014, prior to the end of our field work, the Board adopted a fund balance policy to ensure that procedures are in place to govern the level of fund balance to be maintained to improve the financial stability of the Town's operating funds.

Water Fund – The Board did not raise sufficient revenues or reduce expenditures for the water fund in 2011 and 2012. This caused the fund to have a deficit fund balance of \$8,302 in 2011 and \$15,616 in 2012. Its financial position improved in 2013 with an ending fund balance of \$3,093 (Table 4).

Table 4: Water Fund – Operating Results and Fund Balance			
	2011	2012	2013
Beginning Fund Balance	(\$23,304)	(\$8,302)	(\$15,616)
Plus: Operating Surplus/(Deficit)	\$15,002	(\$7,314)	\$18,709
Ending Fund Balance	(\$8,302)	(\$15,616)	\$3,093
Less: Appropriated Fund Balance	\$0	\$0	\$0
Unrestricted, Unappropriated Funds at Year End	(\$8,302)	(\$15,616)	\$3,093

According to Town officials, the Board determined that unrealized revenue was due to several broken water meters and poor water billing estimates. The Board attributes the fund's slight surplus of \$3,093 in 2013 to the Town hiring a new meter reader and installing new water meters.

## Multiyear 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 for the Board to develop a comprehensive multiyear financial and capital plan to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and allow the Board to identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. Multiyear plans also allow the Board to assess the effects and merits of alternative approaches to address financial issues, such as the use of unrestricted fund balance to finance operations and the accumulation of money in reserve funds. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the

Board's financial priorities and goals. Also, the Board must monitor and update its multiyear plans on an ongoing basis to ensure that its decisions are guided by the most accurate information available.

The Board has not created multiyear financial and capital plans. The Town bookkeeper maintains an informal multiyear combined financial plan for the town-wide and part-town general funds. However, this plan does not consider the individual performance of each fund. Without a useful multiyear financial and capital plan, the Board's ability to effectively manage Town finances and adequately plan for future capital needs is diminished.

## **Recommendations**

The Board should do the following:

1. Address the declining fund balances in the town-wide general fund, highway town-wide fund and refuse and garbage fund, and adopt structurally balanced budgets with less dependence on using unrestricted funds to finance operations;
2. Limit its appropriations of fund balance to only those unrestricted, unappropriated funds that are actually available to finance operations in succeeding years' budgets; and
3. Develop a comprehensive multiyear financial and capital plan for each operating fund that projects operating and capital needs and financing sources over a three- to five-year period. These plans 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.



Orange County, New York

July 14, 2014

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

RE: Town of Cornwall Draft Response Letter  
Report of Examination-Financial Condition  
Period Covered: January 1, 2011-December 31, 2013  
2014M-123

Dear [REDACTED]

This letter is in response to the above-mentioned audit for the Town of Cornwall, Orange County, New York. I would like to thank the audit team for their courteous and professional manner in which they conducted the audit.

The Town agrees with the figures outlined by the draft audit. The decline in fund balances are mostly due to the economic downturn that started in 2008 and the implementation of the two percent property tax cap law. In regards to the General fund town-wide, we did have decreases in the unrestricted fund balances for multiple years, however, from our low in 2012 of \$23,925 we increased the unrestricted in 2013 to \$227,298. The refuse and garbage fund and Highway town-wide funds need to be examined more closely as to avoid having negative fund balances. We are working to correct that in our 2014-15 budgets. The goal of I, and the town board, is to plan for the future by setting adequate long-term priorities and goals as suggested by the findings of this audit, at the same time not to overburden the residents with large tax increases. The recommendations and a more in-depth response to the above will be addressed in a CAP report to follow.

Once again, thank you for your thoroughness and focused interviews throughout the audit process.

Sincerely,

Randolph S. Clark  
Supervisor  
Town of Cornwall

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

Our overall goal was to assess the Town's financial condition and budgetary practices. To achieve our financial condition objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials to determine what processes were in place and gain an understanding of the Town's financial situation and budget.
- We reviewed and analyzed the Town's financial records and reports for all funds, including balance sheets, budget reports and statements of revenues and expenditures.
- We reviewed the results of operations and analyzed changes in fund balance for the general, highway, refuse and garbage, sewer and water funds. To gain additional background information and perspective, we also reviewed financial data from fiscal years prior to those included in our audit scope.
- We interviewed Town officials to determine if the Town had developed a fund balance policy and a multiyear financial and capital plan.
- We tested the reliability of the Town's annual update document by reviewing journal entries, bank statements, cash receipts and disbursements and related accounting records.

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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**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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