



Town of Pierrepont

Fiscal Stress

Report of Examination

Period Covered:

January 1, 2013 — July 31, 2014

2014M-314



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 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 Pierrepont, entitled Fiscal Stress. 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 Pierrepont (Town) is located in St. Lawrence County and serves approximately 2,600 residents. 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 fiscal officer, is responsible for the receipt, disbursement and custody of Town moneys, maintaining accounting records, and providing financial reports. As chief fiscal officer, the Supervisor acts as the budget officer unless another person is appointed. Until November 2013, the bookkeeper, who was an appointed employee, also served as the budget officer. After November 2013, the Town hired an outside bookkeeper and the Supervisor resumed acting as the budget officer.

The Town's budgeted appropriations for 2014 were approximately \$572,000 for the general fund and \$1,170,000 for the highway fund, funded primarily with real property taxes, sales tax and State aid. The Town provides services for its residents, including street maintenance and improvements, snow removal, street lighting and general government support.

Fiscal stress is a judgment about the financial condition of an individual entity that must take into consideration the entity's unique circumstances, but can be generally defined as a local government's or school district's inability to generate enough revenues within its current fiscal period to meet its expenditures (budget solvency). The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments (counties, cities, towns and villages) and school districts based on financial and environmental indicators to determine if these entities are in or nearing fiscal stress. The Town has been classified as susceptible to fiscal stress.

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 realistic budgets that are structurally balanced and does it properly manage fund balance?

Scope and Methodology

We examined the Town's financial condition for the period January 1, 2013 through July 31, 2014. We extended our audit scope back to January 1, 2011 to analyze prior years' financial trends. We also reviewed the Town's projected 2014 year-end fund balances as of September 3, 2014.

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 agreed with our recommendations and indicated they have initiated 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.

Fiscal Stress

The Board must adopt 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. Fund balance is the difference between revenues and expenditures accumulated over time. Town officials can legally set aside, or reserve, portions of fund balance for specified purposes (i.e., restricted fund balance), designate a portion of fund balance to help finance the next year's budget (i.e., appropriated fund balance) and/or retain fund balance for future use (i.e., unrestricted, unappropriated fund balance). It is important for the Board to ensure that the level of unrestricted, unappropriated fund balance maintained is sufficient to provide adequate cash flow and help protect against unforeseen circumstances. The Board should also develop a detailed multiyear plan to 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 adopted budgets that relied too heavily on appropriated fund balance as a financing source. Furthermore, the Board did not require the bookkeeper to submit estimates of year-end fund balance and did not adopt a policy to determine the amount of unrestricted, unappropriated fund balance to maintain. This led to significant reductions in the Town's fund balances from the beginning of 2011 to the end of 2013. Total general fund balance declined 78 percent (from \$156,784 to \$34,592) and the highway fund balance declined 47 percent (from \$124,882 to \$66,226) during this period. Additionally, the Board has not developed a multiyear financial and capital plan to address the Town's long-term priorities. As a result, the Town's ability to react to external influences, provide basic services and plan for capital needs is diminished.

Fund Balance and Budgeting

Maintaining a reasonable level of fund balance is necessary to ensure long term financial stability. It is important for the Board to adopt a policy that addresses the level of unrestricted, unappropriated fund balance to be maintained and to use the policy in the annual budgeting process to help ensure that unrestricted, unappropriated funds are adequate.¹

¹ When determining the level of unrestricted, unappropriated fund balance to maintain, the Board should consider factors such as the timing of receipts and disbursements, volatility of revenues and expenditures, contingency appropriations and reserves established for various purposes.

The Board must adopt structurally balanced budgets for all operating funds that provide for sufficient recurring revenues to finance recurring expenditures. A local government with unrestricted, unappropriated funds from prior years may choose to appropriate some of its fund balance to offset a planned imbalance between estimated revenues and expenditures. This is an acceptable budgeting practice provided that the local government reasonably estimates that it will have an adequate level of unrestricted, unappropriated fund balance at the end of the fiscal year. However, when a local government appropriates too much fund balance or has operating deficits each year, it gradually depletes the 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 does not have a policy that establishes a reasonable amount of unrestricted, unappropriated fund balance to be maintained, and the Board did not require the bookkeeper to submit estimates of year-end fund balance to help it determine the amount of fund balance to apply to the next year's budget and the amount to retain for cash flow and unexpected occurrences. As a result, the Board did not adopt structurally balanced budgets that provided for sufficient recurring revenues to finance recurring expenditures and instead relied heavily on the appropriation of fund balance as a financing source. In each of the past three years, the Board appropriated more fund balance in the budget than it actually had available at year-end.² Although the Board's budget estimates of revenues and expenditures were generally reasonable, the use of fund balance as a financing source contributed to annual operating deficits in the general fund in 2011 and 2012 and in the highway fund in 2013. This led to significant declines in both the general and highway fund balances over the past three years.

General Fund — Total fund balance decreased \$122,192, or 78 percent, over the last three years. This decrease resulted largely from planned operating deficits.³ The Board appropriated fund balance each year to help fund operations. Although the Town's actual annual operating deficits were lower than planned, the continued appropriation of fund balance has resulted in the gradual depletion of funds.

In addition, because the Board did not estimate available fund balance at year-end, it appropriated more fund balance than it had available in two of the last three years. The Board appropriated \$110,000 of

² The Board appropriated more fund balance than was available in the general fund at the end of 2011 and 2012 and the highway fund at the end of 2013.

³ A planned operating deficit occurs when budgeted appropriations exceed budgeted revenues because fund balance is used as a financing source to close the gap between the appropriations and revenues.

fund balance at the end of 2011 for 2012 when it only had \$80,715 available, resulting in a \$29,285 deficit, and appropriated \$50,000 at the end of 2012 for 2013 when it only had \$30,104⁴ available, resulting in a \$19,896 deficit. The general fund's financial condition improved slightly in 2013, with year-end unrestricted, unappropriated fund balance totaling \$13,613 (2.4 percent of 2014 appropriations).

Figure 1: General Fund – Operating Results and Fund Balance

	2011	2012	2013
Beginning Fund Balance	\$156,784	\$80,715	\$32,141
Plus: Operating Surplus/(Deficit) ^a	(\$76,069)	(\$48,574)	\$2,451
Ending Fund Balance	\$80,715	\$32,141	\$34,592
Less: Restricted Fund Balance	\$0	\$2,037	\$979
Less: Appropriated Fund Balance for Next Year	\$110,000	\$50,000	\$20,000
Unrestricted, Unappropriated Funds at Year-End	(\$29,285)	(\$19,896)	\$13,613

^a The operating deficits were planned. Appropriated fund balance was included as a financing source in each year's budgets (\$100,000 for 2011, \$110,000 for 2012 and \$50,000 for 2013)

While we were on site, the Board started the 2015 budget process. The bookkeeper now provides the Board with year-end fund balance estimates and 12-month rolling averages of actual revenues and expenditures. The bookkeeper estimates that 2014 year-end unrestricted, unappropriated fund balance will amount to \$6,104. According to the 2015 tentative budget, the Board may appropriate \$5,000 of this amount to fund expenditures in the next fiscal year, which would leave the Town with only \$1,104 of remaining unrestricted, unappropriated fund balance. Such a low fund balance will affect the Town's ability to react to external influences, such as economic downturns and emergencies.

Highway Fund — Total highway fund balance decreased \$58,656, or 47 percent, from a beginning fund balance of \$124,882 in 2011 to \$66,226 at the end of 2013. Similar to the general fund, the Board planned operating deficits because it annually appropriated fund balance to partially fund operations. The highway fund did not actually experience an operating deficit until 2013, when the Town used \$87,144 of the \$120,000 fund balance that was appropriated. Also, because the Board did not estimate available fund balance at year-end, it appropriated \$100,000 in fund balance for the 2014 budget when it only had \$57,901⁵ available in unrestricted funds. This resulted in an unrestricted, unappropriated fund balance deficit of \$42,099 at the end of 2013.

⁴ Total year-end fund balance of \$32,141 less \$2,037 restricted for reserves

⁵ Total year-end fund balance of \$66,226 less \$8,325 restricted for reserves

Figure 2: Highway Fund – Operating Results and Fund Balance			
	2011	2012	2013
Beginning Fund Balance	\$124,882	\$141,846	\$153,370
Plus: Operating Surplus/(Deficit) ^a	\$16,964	\$11,524	(\$87,144)
Ending Fund Balance	\$141,846	\$153,370	\$66,226
Less: Restricted Fund Balance	\$3,308	\$3,309	\$8,325
Less: Appropriated Fund Balance for Next Year	\$60,000	\$120,000	\$100,000
Unrestricted, Unappropriated Funds at Year-End	\$78,538	\$30,061	(\$42,099)

^a Appropriated fund balance was included as a financing source in each year's budget (\$20,000 for 2011, \$60,000 for 2012 and \$120,000 for 2013).

As of September 3, 2014, Town officials estimate the highway fund will end the 2014 fiscal year with a deficit fund balance of as much as \$34,365. The Supervisor told us that the Town may need to issue short-term debt before the end of 2014 to help pay year-end expenditures in the highway fund. The issuance of such notes, if necessary to fund year-end expenditures, will result in additional interest payments to be funded with taxpayer dollars. Looking ahead, Town officials do not plan on appropriating any highway fund balance to finance expenditures in the 2015 budget. As the Board develops its 2015 budget, it should continue to update its ending fund balance projection for 2014 and, if necessary, take actions to address any projected deficit in the 2015 budget. Unless the Board takes the necessary steps to address the weak financial condition of the highway fund and replenish the fund balance to a reasonable level, the Town's ability to address unforeseen circumstances will be diminished.

Multiyear Financial Planning

An important Board 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 financial priorities and goals set by the Board. The Board should monitor and update long-term financial plans on an ongoing basis to help ensure that its decisions are guided by the most accurate information available.

The Board has not developed a comprehensive multiyear financial and capital plan and does not have any other mechanism to adequately

address the Town's long-term operational and capital needs. 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:

1. Adopt a policy setting forth the reasonable amounts of unrestricted, unappropriated fund balance the Town should maintain.
2. Review estimates of fund balance at year-end as part of the Town's budget process and appropriate only available fund balance to finance operations in succeeding years' budgets.
3. Develop a comprehensive multiyear financial and capital plan that projects operating and capital needs and financing sources over a three- to five-year period. This 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 pages.

Town of Pierrepont

864 State Highway 68
Canton, NY 13617

December 4, 2014

Office of the State Comptroller
Rebecca A. Wilcox, Chief Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428

Re: Town of Pierrepont
Report of Examination
Period: January 1, 2013 – July 31, 2014
Audit No. 2014M-314

Dear Ms. Wilcox:

This letter is the Town of Pierrepont's formal response to your recent audit, as referenced above. The letter is the collaborative response of the Town Supervisor and the four Town Board members, and it has been signed by Thomas Latimer, Town Supervisor, as well as endorsed by Board members, as indicated on last page.

The Town agrees with all facts stated in the audit, and agrees with all recommendations made as a result of the audit. The focus of the audit was primarily the deficiencies in the Town's budgeting practices, and the fiscal stress caused by those deficiencies. The Town would note that it was aware of these deficiencies prior to this audit, and that it had already implemented the majority of the recommendations contained therein. It would also note that the Town did, by unanimous vote of the Supervisor and the four Board members, formally request this audit in a letter dated April 29, 2014, in an effort to aid the Town in recovering from the fiscal stress it was facing.

In late 2013, the Town became aware that there were significant deficiencies in its overall budgeting process, and that it was entering a period of fiscal stress. The two primary problems were that the Town was adopting structurally unsound budgets that over relied on appropriating prior year fund balances to fund current year operations, and that it was adopting these budgets with little or no reliance on actual accounting data, particularly as the data applied to fund balances. The gravity of these deficiencies became readily apparent in early 2014, when the Town discovered that it has appropriated \$100,000 of the 2013 year-end fund balance in the Highway Fund to use for 2014 operations, when the actual balance was only \$57,901 on December 31, 2013.

Once the seriousness of the budgeting deficiencies became apparent, in early 2014, the Town implemented a number of measures to both deal with the current fiscal difficulties, as well as ensure that these difficulties would not be repeated by future budgeting problems.

The Town took the following steps for improvement, most of which have been noted as implemented in this audit.

- The Board now receives a bookkeeping update at its monthly meetings that details current Town finances, explains any extraordinary items, and attempts to use current data to project the future fiscal status of the various Town funds. This report is presented in a written, narrative form, and the Town bookkeeper is available at all meetings to elaborate on the information, and answer any questions the Board may have. This is in addition to the statutorily required monthly Supervisor's Report, which was primarily the only financial information the Board received in the past.
- The Board now involves itself directly in all facets of the budgeting process, and uses actual accounting data, and historical trends, to create budgets. The recently adopted 2015 budget was the result of many hours of collaborative work by the Supervisor, the bookkeeper, and all Board members, and is believed to be structurally sound, while not relying heavily on prior fund balances.
- The Board had, many years ago, created a "Capital Reserve Account – Equipment" in the Highway Fund in order to set aside funds for future equipment purchases. This fund had been allowed to dwindle over the

years, without being replenished to the extent needed if it were to be useful. The balance was \$8,325 as of December 31, 2013. The balance at the end of 2014 is expected to be nearly \$39,000, as the Town will have added over \$30,000 to the account in 2014. The Town also created, in the 2015 budget, a "Capital Reserve Account – Buildings" in the General Fund, and will initially fund it in the 2015 budget. The purpose of this account is to accumulate funds for future building repairs and renovations, as well as to pursue the Town's desire to possibly install solar power fixtures as a source of renewable energy.

The procedural improvements noted above have been implemented at this time. They correspond to the recommendations stated in this audit. The Town has also implemented a number of other improvements that were suggested by the auditor during the audit, but were not included in this audit report. It is the Town's belief that it has now implemented all recommended changes and improvements, both written and verbal, resulting from this audit.

The Town is currently in the process of adopting a formal corrective action plan, as requested by the Office of the State Comptroller, as the final step of the audit process. The plan will formalize the various changes already implemented, and will provide a five year plan, with yearly interim goals, for replenishing the unappropriated fund balances in both the General Fund and Highway Fund to reasonable levels, and for funding Capital Reserve Accounts in both funds to provide for future capital expenditures.

Yours truly,

 Thomas Latimer, Supervisor

 John McIntosh, Councilman

 Dahl McCormick, Councilman

 Roger Murray, Councilman

 Neil Thomas, Councilman

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using the local government's annual update document⁶ and information from the United States Census Bureau, the New York State Department of Labor and the New York State Education Department, among other sources. The Town has demonstrated signs of fiscal stress in several areas. Due in part to these fiscal stress indicators, we selected the Town for audit.

Our overall goal was to assess the Town's financial condition and budgetary practices. To achieve our 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 process.
- 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 entries.
- We reviewed the results of operations and changes in fund balance for all funds to identify any trends in fund balance and to identify the cause of any significant declines in fund balance.
- We compared budgeted revenues and appropriations to actual results of operations to determine the reasonableness of the Town's budgets.
- We reviewed the results of current year operations and estimates of year-end fund balance in the Town's general and highway funds.

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.

⁶ Required to be submitted annually by the Town to the Office of the State Comptroller

APPENDIX C

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

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