



Town of Russia Financial Management

Report of Examination

Period Covered:

January 1, 2013 — December 31, 2013

2014M-212



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 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 Russia, 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 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 Russia (Town) is located in Herkimer County and includes the Villages of Cold Brook and Poland. The Town has a population of approximately 2,600. It provides various services to its residents including street maintenance and general government support. These services are funded primarily through real property taxes, sales tax and State aid. The Town's 2013 expenditures for the town-wide (TW) general, town-outside-village (TOV) general, TW highway and TOV highway funds totaled \$1.07 million. The TW funds encompass the entire Town, including the villages. The TOV funds encompass only the portion of the Town that lies outside of the villages.

The Town is governed by an elected Town Board (Board), which comprises a Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial and operational affairs. The Board is also responsible for adopting and monitoring the budget and ensuring the Town's sound financial position. The Supervisor is the chief fiscal officer and is responsible for maintaining the accounting records and preparing financial reports. The Supervisor delegates these duties to a bookkeeper.

Objective

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

- Did the Board adopt realistic budgets and maintain reasonable fund balance levels?

Scope and Methodology

We examined the Town's financial management for the period January 1 through December 31, 2013. We expanded the scope of our audit back to January 1, 2011 to analyze prior years' financial trends.

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 findings and recommendations and indicated they will develop a corrective action plan.

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 New York State 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 Clerk's office.

Financial Management

A basic component of local government budgeting is the prudent use of fund balance, which is the difference between revenues and expenditures accumulated over time. The Board should adopt a policy to govern the level of fund balance maintained in each fund and long-term plans that set forth the Town's financial objectives and goals. In addition, the Board should adopt budgets that include realistic estimates of revenues and expenditures and use surplus fund balance as a funding source, when appropriate. If these practices are followed, only the necessary amount of real property taxes will be raised.

The Board has not established adequate policies and procedures relating to maintaining a reasonable level of fund balance. The Town has accumulated excessive fund balances in the TW general, TOV general, TW highway and TOV highway funds, resulting, at least in part, from unrealistic budget estimates. In addition, the Board has not developed a long-term financial and capital plan to help address the Town's future needs. As a result, there is an increased risk that more taxes may be raised than necessary.

Excessive Fund Balance

Fund balance represents moneys accumulated from prior fiscal years. Town officials can legally set aside, or reserve,¹ portions of fund balance to finance future costs for a specified purpose and may also designate a portion of fund balance to help finance the next year's budget (i.e., appropriated fund balance). In addition, the Town may retain a reasonable portion of fund balance, referred to as available fund balance, to use as a financial cushion in the event of unforeseen financial circumstances. Each town needs to assess what is reasonable for its particular situation by considering various factors such as timing of receipts and disbursements, volatility of revenues and expenditures and contingency appropriations. If fund balance is kept at excessively high levels, funds that could benefit the Town are not being used, thereby placing an unnecessary burden on the taxpayers. It is important that the Board adopt policies and procedures to govern the level of available fund balance to be maintained in each fund.

The Board has not adopted policies and procedures to govern the level of available funds to be maintained. As a result, the Town has accumulated excessive funds in the TW general, TOV general, TW highway and TOV highway funds, as shown in Figure 1.

¹ Reserve funds are classified as restricted fund balance.

Figure 1: Available Funds at Year End as a Percentage of the Next Year's Budget

Year	TW General		TOV General		TW Highway		TOV Highway	
2011	\$336,657	74%	\$38,746	74%	\$185,855	52%	\$161,552	43%
2012	\$423,396	81%	\$40,945	78%	\$214,300	60%	\$162,707	42%
2013	\$444,976	84%	\$56,105	106%	\$232,357	65%	\$195,152	44%

These excess funds are more than necessary for a financial cushion. For example, available funds of \$444,976 in the TW general fund at the end of 2013 would cover nearly a whole year's expenditures.² Also, the Town typically had large favorable budget variances that resulted from underestimated revenues and/or overestimated expenditures, which caused available funds to increase. While it is prudent to maintain adequate fund balance to protect against unforeseen circumstances or to budget conservatively, maintaining a substantial fund balance in addition to budgeting conservatively may result in taxes being higher than necessary. Figure 2 illustrates the 2013 budget variances.

Figure 2: 2013 Budget-Versus-Actual Results of Operations

	TW General	TOV General	TW Highway	TOV Highway
Budgeted Revenues	\$385,021	\$42,538	\$297,011	\$346,290
Actual Revenues	\$416,031	\$44,717	\$305,500	\$458,817
Variance	\$31,010	\$2,179	\$8,489	\$112,527
Variance Percentage	8%	5%	3%	32%
Budgeted Appropriations	\$525,021	\$52,538	\$357,011	\$386,290
Actual Expenditures	\$396,889	\$29,353	\$262,435	\$381,354
Variance	\$128,132	\$23,185	\$94,576	\$4,936
Variance Percentage	24%	44%	26%	1%

These variances have resulted in annual operating surpluses in each of the TW and TOV funds. In 2013 the revenues for all major operating funds were higher than estimates by \$154,205 (14 percent) and expenditures were lower than estimates by \$250,829 (19 percent). The Board's failure to adopt budgets with more realistic revenue and appropriation estimates has contributed to the sizeable fund balances maintained by the Town. Some examples of unrealistic budget estimates during our audit period include the following:

- Sales tax was underestimated by \$92,376 in 2013. The Supervisor told us that Town officials budget conservatively for sales tax revenue because the amounts are not always consistent. However, sales tax was underestimated in the

² 2014 TW general fund appropriations are \$531,885.

prior two years as well – by \$91,196 in 2012 and \$63,118 in 2011. Over the last three years, sales tax revenues were underestimated by an average of 53 percent.

- Highway equipment appropriations were overestimated by \$22,500 in 2013, \$21,985 in 2012 and \$44,150 in 2011. Over these three years, appropriations were overestimated by an average of 66 percent.

The Supervisor told us that Town officials budget conservatively to protect against unanticipated costs. While conservative budgeting is desirable to a point, this approach led to the continued excessive accumulation of available funds.

The Town budget also included the planned use of fund balance to finance operations. In 2013, the Board adopted a budget that included fund balance appropriations of \$250,000 for all major operating funds. However, none of the planned amounts were used because actual results of operations generated surpluses totaling \$155,034. Operating results for 2013 are shown in Figure 3.

Figure 3: 2013 Operating Results				
	TW General	TOV General	TW Highway	TOV Highway
Actual Revenues	\$416,031	\$44,717	\$305,500	\$458,817
Actual Expenditures	\$396,889	\$29,353	\$262,435	\$381,354
Operating Surplus	\$19,142	\$15,364	\$43,065	\$77,463
Planned Deficit ^a	(\$140,000)	(\$10,000)	(\$60,000)	(\$40,000)
Net Budget Variance	\$159,142	\$25,364	\$103,065	\$117,463
^a A planned deficit is when budgeted appropriations exceed budgeted revenues and fund balance is used as a financing source to close the gap between the appropriations and revenues.				

By appropriating fund balance, the Board gave the impression that it planned to reduce fund balance to a more reasonable level. However, the consistent budget variances caused operating surpluses and allowed the Town to continue to increase its excessive fund balance. The Town also increased the combined³ major operating funds' real property taxes by \$56,150, or 11 percent, over the past three years, which may not have been necessary if reasonable budget estimates had been used.

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 to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing

³ The increase in real property taxes for each fund was: TW general \$15,573 (5 percent), TOV general \$5,219 (153 percent), TW highway \$3,968 (3 percent) and TOV highway \$31,390 (55 percent).

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 funds⁴ and the use of 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 operating or capital plan. Such plans would be a useful tool for the Board to address the excessive funds. Although the Town currently has two reserves and intends to use some of these funds to purchase highway equipment,⁵ there is still a large amount of available funds without a specific planned use.

Recommendations

The Board should:

1. Develop a fund balance policy that establishes a reasonable amount of fund balance that should be maintained in each fund to meet the Town's needs.
2. Formulate a plan for the use of excess funds in the TW general, TW highway, TOV general and TOV highway funds in a manner that benefits taxpayers. Such uses include, but are not limited to, reducing property taxes, paying off debt, funding reserves or financing one-time expenditures.
3. Adopt budgets that include realistic estimates for revenues, expenditures and appropriated fund balance.
4. Develop and adopt comprehensive multiyear financial and capital plans to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

⁴ Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment and other allowable purposes (e.g., capital reserve fund or repair reserve fund). Guidance on reserve funds is available in the Office of the State Comptroller publication entitled *Local Government Management Guide, Reserve Funds*, available at <http://www.osc.state.ny.us/localgov/pubs/lmg/reservefunds.pdf>.

⁵ At the end of 2013, the Town had a \$45,019 bridge reserve and a \$76,120 machinery reserve. These moneys are restricted and are not included in the available funds discussed in this report.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

FRANCES DONLEY
Town Supervisor

WAYNE HAVER
Councilman

W. SCOTT GIFFORD
Councilman

LOUIS BRAVO
Councilman

RONALD PRZELSKI
Councilman

JEANNE M. BARLEY
Town Clerk/Registrar



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HERKIMER COUNTY

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24 September 2014

Highway Superintendent

LOUIS J. GAUTHIER
Town Justice

WILLIAM W. WEAKLEY
Town Justice

BRUCE WEAKLEY
Assessor

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STATE OFFICE BUILDING, ROOM 409
333 E. WASHINGTON STREET
SYRACUSE, NEW YORK 13202-1428
ATTN: REBECCA A. WILCOX, CPA

Dear Examiner Wilcox:

The Town of Russia has received, and reviewed the preliminary draft finding related to a recent audit conducted by the Office of the State Comptroller.

Our government body is in agreement with your draft findings and recommendations. A formalized corrective action plan (CAP) will follow within a mandatory 90-day time frame. (September 3 – December 3, 2014)

Respectfully submitted,

Frances J. Donley
Town Supervisor

FJD/ jmb

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We evaluated the Town's financial management for the period January 1 through December 31, 2013. We expanded the scope of our audit back to January 1, 2011 to analyze prior years' financial trends.

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

- We reviewed Board minutes and documentation and made inquiries of Town officials.
- We interviewed Town officials regarding budgeting practices.
- We reviewed the Town's financial records and reports, including budgets and annual reports, and completed an analysis of the available funds.
- We analyzed the changes in fund balance and variances in budget-to-actual revenues and expenditures. We also calculated operating deficits or surpluses.

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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