



Town of Allegany

Financial Management

Report of Examination

Period Covered:

January 1, 2009 — January 2, 2015

2015M-103



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2015

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 Allegany, 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 Allegany (Town) is located in Cattaraugus County and includes the Village of Allegany. The Town covers 72 square miles and serves about 8,000 residents. The Town provides a variety of services to its residents, including highway maintenance and improvements, a justice court, water and sewer, fire protection, code enforcement, recreation activities and general government support. The Town's total 2015 adopted budget appropriations are approximately \$4 million, funded primarily with real property and sales taxes, user fees and State aid.

The Town is governed by an elected Town Board (Board), which is composed of a Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor is the chief executive officer and the Town Comptroller (Comptroller) maintains the accounting records and provides the financial reports to the Board.

Objective

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

- Did the Board adopt realistic budgets and properly monitor actual results within the Town's operating funds?

Scope and Methodology

We examined the Board's financial management practices for the period January 1, 2009 through January 2, 2015.

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 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 monitoring financial operations to maintain the Town's fiscal health. Such monitoring includes adopting realistic budgets and routinely monitoring actual activity against budgeted amounts ensuring appropriations are not over expended, revenues are received as anticipated and fund balance is available. It is also important for the Board to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, Town officials should develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs.

Overall, the Board properly managed the Town's finances as it generally adopted realistic budgets. While the Town's operating funds have not recently experienced any significant year-end fund balance deficits, the Board could improve its monitoring of the Town's financial condition, in particular the town-outside-village (TOV) general and highway funds.¹

TOV General Fund – During 2014, the Town's TOV general fund incurred an operating surplus of approximately \$42,000, primarily due to the receipt of unplanned building permit revenue. This unanticipated revenue has positively affected the fund, increasing both fund balance and unrestricted cash. The fund had experienced unplanned operating deficits in three of the last six completed fiscal years. As a result, the additional revenue has improved the fund's financial condition.

Compared to the 2014 budget, the Board's 2015 budget anticipates that both revenues and expenditures will continue to increase by an additional \$10,000. This appears reasonable based on the actual revenue and expenditures reported for this fund in 2014.

TOV Highway Fund – Beginning in 2011, the TOV highway fund relied on interfund borrowing (between \$75,000 and \$175,000 annually) from the town-wide general fund. However, the Board has taken steps to address this by adopting a more realistically balanced budget in 2014 and realizing additional revenue, primarily due to the increase in the amount of sales tax the County distributes to the Town. As a result, the fund repaid the interfund borrowing in 2014 eliminating the amount owed to the town-wide general fund.

¹ The TOV highway fund experienced a fund balance deficit totaling \$7,939 as of December 31, 2011.

Compared to the 2014 budget, the Board's 2015 budget anticipates revenues will decrease by approximately \$20,000 in the TOV highway fund. The Board planned to appropriate \$25,000 of fund balance to cover the decrease. Additionally, while the Board has realistically estimated revenues, it has not realistically estimated expenditures consistently. As a result, underestimated expenditures contributed to the fund's past financial condition issues. However, the Board increased appropriations to \$830,000 in 2014, which aligned more closely with the actual expenditures of \$825,000, resulting in a positive budget variance of approximately \$5,000. The Board's 2015 budget is consistent with 2014. As a result, it appears that the Board has addressed prior budgeting issues. However, we also caution the Board and Town officials on the long-term use of fund balance as a financing source.

Although the Board has taken positive steps to manage Town's finances, we identified the following improvement opportunities, which could help to further improve the Town's financial operations.

Monthly Financial Reports – Budget status reports serve as an effective tool for the Board to perform its oversight and monitoring functions. However, the Board did not review the budget-to-actual status reports the Comptroller provided. The Comptroller printed one copy of a quarterly budget-to-actual status report and made it available in the Town Clerk's office for Board members to review. However, we found no evidence in the Board meeting minutes that these reports were reviewed by Board members. Further, Board members asserted that the Supervisor and Comptroller reviewed these reports instead of the Board. A monthly review of the budget status reports for each fund will assist the Board in monitoring and addressing the Town's actual financial activity in a timely manner.

Multiyear Financial Plan – A multiyear financial plan allows Town officials to make more informed financial decisions based on future needs. The Board has not developed a multiyear financial plan. By developing and adopting such a plan, the Board could continue to strengthen the overall fiscal stability of both its TOV funds and overall Town finances.

Recommendations

The Board should:

1. As part of its official meetings, routinely review budget-to-actual status reports to ensure the timely monitoring of the Town's financial condition.
2. Develop and adopt a multiyear financial plan.

The Comptroller should:

3. Provide monthly budget-to-actual status reports to each Board member.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

John E. Hare, Supervisor
David Koebelin, Councilman
David O'Dell, Councilman
Jim Hitchcock, Councilman
Robert Parker, Councilman
Mary M. Peck, Town Clerk



Wendy A. Tuttle, Town Attorney
John M. Moshier, Highway Supt.
Carolyn Hemphill, Comptroller
Mary M. Peck, Receiver of Taxes
Bobbi Elderkin, Assessor
Gerard E. Dzuroff, C.E.O

July 16, 2015

Jeffrey D. Mazula
Chief Examiner of Local Government and School Accountability
Office of The State Comptroller
110 State Street
Albany, New York 12236

Re: Audit January 1, 2009 –January 2, 2015

Mr. Mazula:

The Town of Allegany Town Board and its Comptroller have reviewed the draft audit report presented to the Town under a cover letter dated 7/01/2015 (2015M-103). At our July 14th Town Board meeting, the Board passed a formal resolution accepting the findings and the three recommendations contained within the draft Audit Report.

We truly appreciate the insights and suggestions made during the audit process last Fall as we strive to improve and strengthen our financial monitoring practices. The Town will submit the required 'Corrective Action Plan' under separate cover. As discussed with [REDACTED] during our meeting on July 8th, two out of the three identified action items have already been implemented and the recommended addition of a 5 year strategic planning process will be incorporated as part of our Annual Budget Process.

Thank you again,

Sincerely,

John E. Hare, Town Supervisor
Town of Allegany, NY 14706

Cc [REDACTED] Buffalo Office of OSC

Town Hall • 52 West Main Street • Allegany, NY 14706
Phone: 716-373-0120 Fax: 716-373-4522

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to assess the Board's financial management practices. To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed appropriate Town officials to gain an understanding of the Town's financial management, the budgeting process and multiyear planning.
- We reviewed Board minutes and resolutions regarding financial decisions and budget modifications.
- We reviewed the Town's adopted budgets for 2009 through 2015 to determine the amount of fund balance appropriated.
- We reviewed the Town's budget-to-actual variances for 2009 through 2014. We also reviewed the 2015 budget to determine if the budgets realistically estimated revenues and expenditures, and if variances were significant.
- We reviewed interfund advances and transfers for 2009 through 2014.

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

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