



# Town of Croghan Financial Management

## Report of Examination

Period Covered:

January 1, 2013 — May 31, 2014

2014M-340



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**

February 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 Croghan, 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 Croghan (Town) is located in Lewis County and has approximately 3,100 residents. The Town is governed by the Town Board (Board) comprising four elected members and an elected Town Supervisor (Supervisor). The Board is the legislative body responsible for the Town's overall management, including providing oversight of the Town's financial operations and adopting the budget. The Supervisor is the chief fiscal officer and is responsible for maintaining accounting records, preparing financial reports and preparing tentative budgets.

The Town provides various services for its residents, including road maintenance, general government support and fire protection. The Town's budgeted appropriations for the 2014 fiscal year were approximately \$1.8 million funded primarily with real property taxes and State aid. The Town maintains a town-wide (TW) general fund, TW highway fund, town-outside-village (TOV) general fund and a TOV highway fund.<sup>1</sup>

## Objective

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

- Does the Board adopt realistic budgets that are structurally balanced to ensure fiscal stability?

## Scope and Methodology

We examined the Town's financial management for the period January 1, 2013 through May 31, 2014. We extended the scope of our audit back to January 1, 2011 to analyze prior years' financial trends and we reviewed the Town's projected 2014 year-end fund balances as of September 23, 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.

<sup>1</sup> The TW funds encompass the entire Town, including the Village of Croghan. The TOV funds encompass only the portion of the Town that lies outside of the Village.

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 Management

Fund balance is the difference between revenues and expenditures accumulated over time. 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. 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) or retain fund balance for future use (i.e., unrestricted, unappropriated fund balance). 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. The Board should also develop detailed multiyear plans to allow officials to set long-term priorities and work toward goals, rather than making choices based only on the needs of the moment.

We found that the TOV operating fund balances were reasonable and the Board's budget estimates for revenues and expenditures were generally reasonable for all funds. However, because the Board did not fully understand the impact of appropriating fund balance each year, fund balance for both of the TW operating funds combined experienced significant declines over the last three years totaling \$463,316. The TW general fund ended 2013 with an unrestricted, unappropriated fund balance of \$2,683 and the TW highway fund ended the year with an unassigned fund balance deficit of \$75,952. The Board adopted budgets that relied too heavily on appropriated fund balance as a financing source and planned to appropriate more fund balance than it had available. Additionally, the Board has not developed a fund balance policy to determine the amount of fund balance to maintain or multiyear financial and capital plans 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 fund balance to be maintained and to use the policy in the annual budgeting process to help ensure that fund balance levels are adequate.<sup>2</sup> The Board must adopt structurally

<sup>2</sup> When determining the level of fund balance to maintain, the Board should consider factors such as the timing of receipts and disbursements, the volatility of revenues and expenditures, the amount of contingency appropriations and the balances of reserves established for various purposes.

balanced budgets for all operating funds that provide sufficient recurring revenues to finance recurring expenditures. Appropriated fund balance is the portion of fund balance estimated to be available that is designated to help finance operations of that fund for the subsequent year. A local government may appropriate some of its fund balance to offset a planned imbalance between estimated revenues and expenditures (i.e., a planned operating deficit). This is an acceptable budgeting practice, provided the local government reasonably estimates that it will have an adequate level of unrestricted fund balance available 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. As a result, financial resources may eventually be unavailable for unforeseen events or financing successive budgets.

The Board did not fully understand the impact of appropriating fund balance each year. As a result, the Board did not adopt structurally balanced budgets that provided for sufficient recurring revenues to finance recurring expenditures. Instead, the Board relied too heavily on fund balance as a financing source. This led to significant declines in both the TW general and TW highway fund balances over the past three years. This was in part due to the Board not having accurate estimates of available fund balance at budget time. As a result, the Board planned to appropriate more fund balance in the budgets than it actually had available.<sup>3</sup>

General Town-Wide Fund – Total fund balance decreased by \$124,189, or 55 percent, over the last three years, largely from planned operating deficits. The Board appropriated fund balance each year to help fund operations. Although the Town did not use all of the fund balance appropriated, the continued appropriation of fund balance has resulted in the gradual depletion of funds.

In addition, because the Board did not accurately estimate available fund balance at year-end, it planned to appropriate more fund balance than was available at the end of 2012. The Board planned to appropriate \$100,000 of fund balance at the end of 2012 for 2013 when it only had \$95,675 available, resulting in a \$4,325 deficit. The TW general fund's financial condition improved slightly in 2013, and year-end unrestricted, unappropriated fund balance totaled \$2,683 (1 percent of 2014 appropriations).

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<sup>3</sup> The Board appropriated more fund balance than was available in the TW general fund at the end of 2012 and the TW highway fund at the end of 2012 and 2013.



**Figure 1: Town-Wide General Fund Balance and Operating Results**

	2011	2012	2013
Beginning Fund Balance	\$227,007	\$191,052	\$145,675
Plus: Operating Surplus/(Deficit) <sup>a</sup>	(\$35,955)	(\$45,377)	(\$42,857)
Ending Fund Balance	\$191,052	\$145,675	\$102,818
Less: Restricted Fund Balance	(\$50,000)	(\$50,000)	(\$50,135)
Available Fund Balance for Appropriation	\$141,052	\$95,675	\$52,683
Less: Appropriated Fund Balance for Next Year	(\$100,000)	(\$100,000)	(\$50,000)
Unrestricted, Unappropriated Funds at Year End <sup>b</sup>	\$41,052	(\$4,325)	\$2,683
Unrestricted, Unappropriated Funds as a Percentage of Next Year's Appropriations	13%	(1%)	1%

<sup>a</sup> The operating deficits were planned. Appropriated fund balance was included as a financing source in each years' budgets (\$100,000 for 2011, 2012 and 2013).

<sup>b</sup> Deficit amounts are technically classified as unassigned fund balance.

Highway Town-Wide Fund – Total TW highway fund balance decreased \$339,127, or 63 percent, from a beginning fund balance of \$535,884 in 2011 to \$196,757 at the end of 2013. Similar to the TW general fund, the Board planned operating deficits because it annually appropriated fund balance to partially fund operations. In addition, because the Board did not accurately estimate available fund balance at year-end, it planned to appropriate more fund balance than was available. The Board planned to appropriate \$150,000 of fund balance at the end of 2012 for 2013 when it only had \$116,177 available, resulting in a \$33,823 deficit. The Board planned to appropriate \$100,000 at the end of 2013 for 2014 when it only had \$24,048 available, resulting in a \$75,952 deficit at the end of 2013.

**Figure 2: Highway Town-Wide Fund Balance and Operating Results**

	2011	2012	2013
Beginning Fund Balance	\$535,884	\$515,993	\$288,863
Plus: Operating Surplus/(Deficit) <sup>a</sup>	(\$19,891)	(\$227,130) <sup>b</sup>	(\$92,106)
Ending Fund Balance	\$515,993	\$288,863	\$196,757
Less: Restricted Fund Balance	(\$348,743)	(\$172,686)	(\$172,709)
Available Fund Balance for Appropriation	\$167,250	\$116,177	\$24,048
Less: Appropriated Fund Balance for Next Year	(\$150,000)	(\$150,000)	(\$100,000)
Unrestricted, Unappropriated Funds at Year End <sup>c</sup>	\$17,250	(\$33,823)	(\$75,952)
Unrestricted, Unappropriated Funds as a Percentage of Next Year's Appropriations	3%	(6%)	(13%)

<sup>a</sup> The operating deficits were planned. Appropriated fund balance was included as a financing source in each years' budgets (\$150,000 for 2011, 2012 and 2013).

<sup>b</sup> In 2012, the Town used \$176,586 from its reserve to purchase a truck. Without that purchase, the operating deficit would have been \$50,544.

<sup>c</sup> Deficit amounts are technically classified as unassigned fund balance.

Current Year-to-Date Operating Results – The 2014 budget also includes planned operating deficits, using appropriated fund balance as a financing source (\$50,000 in the TW general fund and \$100,000



in the TW highway fund). As of September 23, 2014, Town officials estimate the TW general fund will end 2014 with about \$28,000 of unrestricted fund balance and the TW highway fund will end the year with an unassigned fund balance deficit of about \$13,000. Officials plan to transfer \$14,000 from the TW general fund to the TW highway fund to cover the deficit. Town officials told us that they do not plan on appropriating any fund balance in the 2015 budget. Because the Town no longer has unrestricted fund balance available as a financing source, Town officials must replace these funds with other recurring revenues and/or cut costs to balance the 2015 budget.

## **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 comprehensive multiyear financial and capital plans 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 effect 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 in place to adequately address the Town's long-term operational and capital needs. Without a comprehensive 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. Ensure that the Town maintains a reasonable amount of fund balance to meet its future needs.
2. Adopt a policy setting forth the reasonable amounts of fund balance the Town should maintain in each fund.
3. 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.

4. 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 CROGHAN**  
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**Castorland, NY 13620-3171**  
**LEWIS COUNTY**  
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**FAX: 315-346-6844**  
**EMAIL: [tccrogn@frontiernet.net](mailto:tccrogn@frontiernet.net)**  
**WEBSITE: [www.townofcroghan.com](http://www.townofcroghan.com)**

**SUPERVISOR**

Andrew A. Lehman      346-1212, ext. 4

**HIGHWAY SUPERINTENDENT**

Warren W. Shaw      346-6722

**DEPUTY SUPERVISOR**

John A. Farney      346-6571

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John A. Farney      346-6571

John V. Lehman      346-6696

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**REGISTERED MUNICIPAL CLERK**

Ruth Ann Hammond      346-1212, ext. 21

February 5, 2015

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

Dear Ms. Wilcox:

In response to the Draft Financial Management Audit, we agree with your findings and have no dispute. We acknowledge that the town board needs to set policies and follow closely those policies put in place. Money earmarked for special funds was being put back into the budget and unexpended balances were used to offset taxes. It could take 3-4 years or more to get a fund balance established.

The town board met and agreed to add a line in the Preliminary Budget for actual money spent for comparison purposes, set a percentage of budget to establish fund balances, adopt a policy to set forth a goal, adopt a comprehensive multi-year plan and all should be reviewed at the end of the year.

Following are the corrective action plans:

- The town board's long term goal is to have a fund balance of 10 percent (10%) of the total budget with the knowledge this cannot be done in a short time, avoiding burden to the taxpayers.
- The town board sets forth a policy for reasonable amounts in the towns funds as follows: Machinery Equipment Fund – maintain a minimum of \$50,000.00; Capital Project – maintain a minimum of \$20,000.00; General Fund – maintain a minimum of \$100,000.00; DA Account – maintain a minimum of \$100,000.00 and DB Account – maintain a minimum of \$50,000.00.
- The town board will set forth a comprehensive multi-year plan as follows: construct a cold storage building with salt confinement; update phone system; continue to maintain and update dirt roads and convert to pavement; and to continue updating heavy equipment as needed.

The town board has already implemented suggestions by the auditing board as follows:

- At each monthly town board meeting, the town board reviews bank statements and acknowledges by signing them.
- The town board will continue to review all town bills on a monthly basis to monitor expenditures and acknowledge by signing each of the vouchers.

Rebecca A. Wilcox, CPA, Chief Examiner  
State of New York, Office of the State Comptroller

February 5, 2015  
Page 2

By adhering to the above recommendations and policies set forth, the town board can monitor expenditures more closely, maintain reserves and establish a comprehensive multi-year plan without a burden of over-taxing the taxpayers.

Sincerely,

Andrew A. Lehman  
Town of Croghan Supervisor

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## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

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

- We interviewed Town officials regarding budgeting practices and to determine if the officials developed a fund balance policy and a multiyear financial and capital plan.
- We reviewed Town financial records and reports, such as Board minutes, annual budgets, annual update documents, bank statements, budget status reports and general ledgers.
- We reviewed and analyzed the results of operations and changes in fund balance, compared unrestricted, unappropriated fund balance to budgeted appropriations and reviewed the real property tax levy trends.
- We compared budgeted revenues and appropriations to actual results of operations to verify the reasonableness of the Town's budgets.
- We reviewed current year operations and estimates of year-end fund balance in the TW general and TW 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.

## **APPENDIX C**

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