



Town of Middlefield Budgeting

Report of Examination

Period Covered:

January 1, 2013 — January 6, 2015

2015M-109



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Local Officials and Corrective Action	2
BUDGETING	4
Recommendations	7
APPENDIX A Supporting Figures	9
APPENDIX B Response From Local Officials	11
APPENDIX C Audit Methodology and Standards	13
APPENDIX D How to Obtain Additional Copies of the Report	14
APPENDIX E Local Regional Office Listing	15

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 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 Middlefield, entitled Budgeting. 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 Middlefield (Town) is located in Otsego County, includes a portion of the Village of Cooperstown within its boundaries and has approximately 2,100 residents. The Town provides various services for its residents, including road maintenance, snow removal, justice court operations and general government support. The Town's 2015 budgeted appropriations totaled over \$1.3 million, funded primarily with real property taxes, sales tax and State aid.

The Town is governed by an elected Town Board (Board), which is composed of the Town Supervisor (Supervisor) and four elected Board members. The Supervisor, as the chief fiscal officer, is responsible for the Town's day-to-day management, including performing basic accounting functions and maintaining accounting records, under the Board's direction. The Supervisor acts as the Town's budget officer and, therefore, leads the annual budget development process. The Board, along with other Town officials, is responsible for monitoring and controlling the budgets throughout the year.

Objective

The objective of our audit was to assess the Board's practices regarding adopting, monitoring and controlling the budgets. Specifically, our audit addressed the following related question:

- Did the Board properly adopt, monitor and control budgets?

Scope and Methodology

We examined various financial documents including adopted budgets, budget to actual reports and Board minutes. We also interviewed Town officials regarding the Town's four operating funds: town-wide (TW) general and highway funds and town-outside-village (TOV) general and highway funds for the period January 1, 2013 through January 6, 2015. We extended our audit period back to January 1, 2011 to provide a historical understanding of the Board's budgeting practices and long-term 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 are included in Appendix C 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 B, 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 Clerk's office.

Budgeting

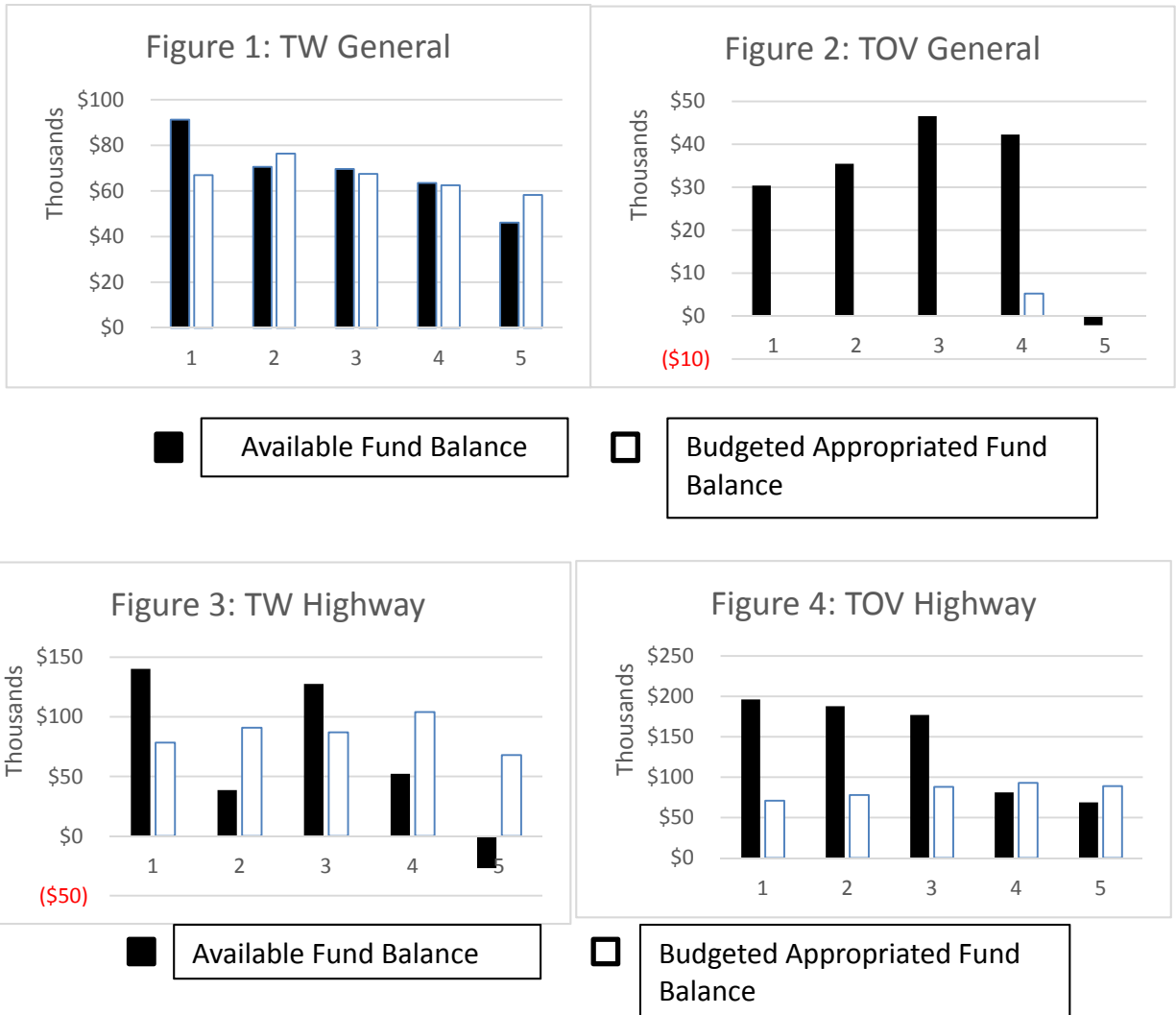
The Board has the responsibility to adopt realistic and structurally balanced budgets. Budgets should be developed by first estimating expenditures based on known needs, historical trends or both. Known estimated revenues then should be applied, along with the reasonable use of available fund balance for non-recurring expenditures, to arrive at the necessary real property tax levy to balance the budget. A key component of budgeting is making sound financial decisions about the use of fund balance; the first step of this is determining the amount of fund balance that is available. The Board should avoid using fund balance to finance recurring operating expenditures, as continued reliance on a finite source will result in operating deficits. The Board is also responsible for continually monitoring and controlling its adopted budgets, which includes reviewing and discussing periodic budget to actual reports and performing timely budget transfers to ensure that budget lines have available funds prior to spending. To aid the Board with this responsibility, Department heads should also be monitoring their budgets and requesting budget transfers, as appropriate, prior to making purchases.

Appendix A, Figure 5 shows results of operations for each of the Town's four operating funds from fiscal years 2011 through 2014. The TW general and the TOV highway funds had operating deficits all four years totaling \$45,200 and \$127,400, respectively. The TW highway fund had operating deficits in three of the four years totaling \$256,200, while the TOV general fund had an operating deficit in the 2014 year totaling \$26,400. While these deficits were generally less than what was budgeted, they have led to declining fund balances within all of the funds. Specifically, the TW highway and TOV general funds ended 2014 with deficit fund balances of \$26,900 and \$2,100, respectively. Furthermore, the TW general and TOV highway fund balances are a small percentage of the next year's budget, and if the current revenue and expenditure trends continue, we project their fund balances will enter into deficits by fiscal year 2017. These deficit fund balances will ultimately impact the services the Town can provide.

Although the Board members followed their procedures when developing budgets, including obtaining Department head "wish lists" and discussing individual budget lines at budget workshops, they consistently adopted unrealistic budgets. Instead, they relied on one-time revenues to fund operations and used budget estimates that did not reflect historical trends. Additionally, the Board and Department heads were not monitoring and controlling the budget

throughout the fiscal year.

Appropriated Fund Balance – The Board consistently relied on fund balance, a one-time financing source, to finance recurring expenditures. However, fund balance was not always available as budgeted, as indicated in Figures 1 through 4:



In January 2015, the Board approved budget modifications in the TW general and highway and the TOV highway funds that increased anticipated revenues and reduced estimated expenditures. The Board made these modifications because it realized it had appropriated fund balance that was not available to finance the budget. However, in previous years, the Board consistently used fund balance to balance the budget and did not make these budget modifications to reduce its reliance on fund balance. Board members informed us that they

appropriated fund balance as a financing source to stay within the property tax cap.¹ These practices have resulted in a continuing decline in fund balance, which will force increases in the real property tax levy in excess of the property tax cap, or result in cutting the level of services provided.

Budget Reasonableness – The Board adopted budgets that did not contain reasonable estimates for revenues and expenditures based on historical trends. We found significant variances, as shown in Appendix A, Figure 6, in all four of the Town’s operating funds. These funds had revenue variances that ranged from negative 8 percent to 140 percent. Specifically, the Board consistently underbudgeted sales tax revenues in all funds by 19 percent in 2014.² Also, all four funds had appropriation variances that ranged from negative 276 percent to 34 percent and experienced significant variances within various individual appropriation lines. For example, in the TW general fund, the Board overbudgeted benefits³ from 2011 through 2014 by over \$31,000 while, during this same period, it underbudgeted the contractual expenditures for highway improvements in the TOV highway fund by over \$215,000. During the budget development process, the Board does not review long-term historical trends for each budget line. Had the Board based estimates on historical results of operations, it would have developed more accurate budget estimates. Unrealistic estimates diminish the effectiveness of the budget as a management tool and cloud the transparency of Town operations for the public.

Monitor and Control – We also found that the Board and Department heads did not adequately monitor or control the budgets throughout the year. While the Supervisor provided the Board and Department heads with monthly budget to actual reports and a listing of the receipts and disbursements, and Board members informed us that they may occasionally ask a question, there was no evidence that the Board and Department heads discussed them. Furthermore, we found that the Board did not approve budget line transfers throughout the 2011 through 2014 fiscal years. Instead, the Board allowed various budget lines to be overspent. For example, as of the end of the 2014 year, the TW general and highway and TOV highway funds had overspent 15, 50 and 33 percent of their budget lines, respectively. Town officials also did not fully understand the monthly financial

¹ With some exceptions, the State’s property tax cap legislation limits the amount local governments and most school districts can increase property taxes to the lower of 2 percent or the rate of inflation.

² The Town does not levy real property taxes in the part-town funds. Therefore, it does not have to satisfy the tax levy in these funds prior to applying sales tax revenues to the town-wide funds.

³ These benefits included State retirement, Social Security and health insurance.

reports. The inability to effectively monitor and control the financial results against the respective budgets further diminishes the budgets' usefulness and does not ensure that the Board's financial intentions are carried out.

Moreover, because Town officials did not effectively control the Town's financial operations, three of the funds⁴ spent more than planned in at least one year, with the TOV highway fund spending more in all four years. Fortunately, the Town received unplanned revenues that helped to offset the funds' financial decline. Most notably, the Town received over \$220,000 more in sales tax revenues almost \$140,000 more in State aid consolidated highway revenues, and \$86,500 more in State aid emergency disaster assistance revenues than budgeted from fiscal years 2011 through 2014. Without these unplanned revenues, the Town's overall financial condition would be worse than it has already become.

Because Town officials have not developed useful estimates and did not monitor and control the actual results against those estimates, the Town's overall financial health has significantly declined. Specifically, the TW highway and TOV general funds ended 2014 with zero cash balances in both funds and deficit fund balances of \$26,900 and \$2,100, respectively. Furthermore, the TW general and TOV highway unassigned fund balances are a small percentage of the next year's budget, and if the current revenue and expenditure trends continue, we project their fund balances will enter into deficits by fiscal year 2017.

The Town can no longer rely on fund balance as a financing source for its operations. In 2015, the Board adopted budgets for the four operating funds that included an aggregate of more than \$215,000 in fund balance, while only approximately \$86,000 was available. This represents more than 40 percent of the total real property tax levy for that year. Because the Board can no longer include the use of fund balance in its financial plans, it will have to consider increasing real property taxes, finding alternative recurring revenue sources or reducing costs just to maintain the Town's financial position.

Recommendations

The Board should:

1. Adopt realistic, structurally sound budgets which:
 - Reduce the Town's reliance on one-time revenues, such as fund balance, as a financing source for recurring expenditures.

⁴ TW highway and TOV general and highway funds

- Ensure that fund balance budgeted to be appropriated is available to be used.
 - Include budgeted revenue and appropriation amounts that are based on historical trends of actual revenues and expenditures.
2. Perform timely budget transfers when necessary.
 3. Utilize budget to actual reports to monitor Town operating funds' financial status throughout the year.

APPENDIX A

SUPPORTING FIGURES

Figure 5: Unassigned Fund Balance and Results of Operations

TW General					TOV General ^a			
	2011	2012	2013	2014	2011	2012	2013	2014
Unassigned Fund Balance	(\$5,781)	\$2,167	\$1,038	\$3,852	\$20,487	\$31,552	\$22,040	(\$2,123)
Unassigned Fund Balance as a Percentage of the Ensuing Year's Budget	(2.13%)	0.79%	0.37%	1.38%	166.56%	258.62%	215.55%	(17.69%)
Results of Operations	(\$20,717)	(\$923)	(\$6,131)	(\$17,385)	\$629	\$4,181	\$3,622	(\$26,434)
TW Highway					TOV Highway			
	2011	2012	2013	2014	2011	2012	2013	2014
Unassigned Fund Balance	(\$52,317)	\$40,648	(\$51,758)	(\$26,869)	\$109,875	\$88,900	(\$11,725)	\$4,848
Unassigned Fund Balance as a Percentage of the Ensuing Year's Budget	(11.09%)	8.34%	(8.57 %)	(5.38%)	28.69%	22.62%	(3.47%)	1.09%
Results of Operations	(\$101,684)	\$89,115	(\$75,405)	(\$79,112)	(\$8,362)	(\$10,884)	(\$95,716)	(\$12,427)

^a The Town was involved in a large fracking lawsuit and received donations to cover the legal expenses from 2011 through 2014. The net of this activity is included in the fund balance figure used; however, it is not included in the ensuing year's budget.

Figure 6: Budget to Actual Comparison

TW General					TOV General ^a			
	2011	2012	2013	2014	2011	2012	2013	2014
Estimated Revenues	\$182,000	\$194,580	\$205,900	\$219,300	\$12,225	\$12,300	\$12,200	\$5,000
Actual Revenues	\$224,516	\$258,951	\$241,745	\$234,324	\$12,225	\$12,300	\$12,200	\$12,000
\$ Variance	\$42,516	\$64,371	\$35,845	\$15,024	\$0	\$0	\$0	\$7,000
% Variance	23%	33%	17%	7%	0%	0%	0%	140%
Appropriations	\$248,960	\$270,929	\$273,380	\$281,780	\$12,225	\$12,300	\$12,200	\$10,225
Actual Expenditures	\$245,233	\$259,874	\$247,876	\$251,709	\$11,596	\$8,119	\$8,578	\$38,434
\$ Variance	\$3,727	\$11,055	\$25,504	\$30,071	\$629	\$4,181	\$3,622	(\$28,209)
% Variance	1%	4%	9%	11%	5%	34%	30%	(276%)
TW Highway					TOV Highway			
	2011	2012	2013	2014	2011	2012	2013	2014
Estimated Revenues	\$376,000	\$381,000	\$400,500	\$500,100	\$305,000	\$305,000	\$305,000	\$245,000
Actual Revenues	\$345,623	\$470,689	\$440,725	\$460,787	\$418,707	\$382,648	\$378,403	\$407,870
\$ Variance	(\$30,377)	\$89,689	\$40,225	(\$39,313)	\$113,707	\$77,648	\$73,403	\$162,870
% Variance	(8%)	24%	10%	(8%)	37%	25%	24%	66%
Appropriations	\$454,350	\$471,850	\$487,500	\$604,100	\$376,000	\$383,000	\$393,000	\$338,000
Actual Expenditures	\$447,307	\$381,574	\$516,130	\$539,899	\$427,069	\$393,532	\$474,119	\$420,297
\$ Variance	\$7,043	\$90,276	(\$28,630)	\$64,201	(\$51,069)	(\$10,532)	(\$81,119)	(\$82,297)
% Variance	2%	19%	(6%)	11%	(14%)	(3%)	(21%)	(24%)

^a The Town was involved in large fracking lawsuit and received donations to cover the legal expenses from 2011 through 2014; we therefore did not include these donated revenues or related legal expenditures in our actuals.

APPENDIX B

RESPONSE FROM LOCAL OFFICIALS

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

Town of Middlefield

PO Box 961
Cooperstown, NY 13326
607-547-5093

8/7/2015

NYSOSC
44 Hawley St Suite 1702
Binghamton, NY 13901-4417

Re: Response - NYSOSC Audit Report # 2015M-109

Mr. H. Todd Eames,

We would like to take this opportunity to thank the comptroller's office for conducting a thorough audit of the Town of Middlefield.

As noted in the audit, because of the quality of the records and reports of both the supervisor and the clerk, the town board was aware of most of the budget issues. We are in agreement with the recommendations designed to help the town restore its fiscal integrity to 2011 levels. To that end, the town board adopted a Financial Plan at our July, 2015 meeting that was favorably reviewed at our exit conference. This plan seeks to reduce the town's recent reliance on fund balance to remain under the state imposed tax cap, and to better utilize the monthly reports currently provided by the supervisor to perform timely budget transfers and to continue monitoring financial status, as well as in budget preparation. We have enacted cost saving measures and, as recommended, will have to give serious consideration to over-riding the tax cap in our next budget cycle.

It should be noted that all towns depend on grants and the timely reimbursements by various government agencies to provide services to the town's citizens. In recent years, the timely receipt of these funds has become unreliable and causes strain on even the most well prepared budget. That, along with our well-intentioned, but ill-advised, desire to remain under the property tax cap has depleted our reserves.

David Bliss
Middlefield Town Supervisor

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Board's practices regarding the development, adoption, monitoring and control of the TW general and highway and the TOV general and highway funds' budgets. To accomplish our objective and obtain valid and relevant audit evidence, we did the following:

- We conducted interviews with Town officials and reviewed Board minutes and financial reports to gain an understanding of the documents and processes used during budget development and monitoring.
- We compared the budgeted appropriated fund balance to the total fund balance for the period 2011 through 2014 to determine if amounts being budgeted were available.
- We compared the budgeted revenues and appropriations to actual revenues and expenditures for the period 2011 through 2014 in total and across the individual lines to determine if adopted budgets were reasonable.
- We reviewed budget to actual reports as of December 2014 to determine if the Board was performing budget transfers or allowing various appropriation lines to be overspent.
- We subtracted the actual expenditures from the actual revenues for the 2011 through 2014 years to determine the results of operation.
- We calculated the unassigned fund balance as a percentage of the ensuing year's appropriations for the same time period to determine the fiscal health of the Town's operating funds.
- We calculated the average trend of the actual revenues and expenditures from 2011 through 2014 for the TW general and the TOV highway funds and utilized these averages to project the future amounts of fund balance.

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.

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