



# Town of Phelps Financial Management

## Report of Examination

Period Covered:

January 1, 2011 — March 27, 2015

2015M-70



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**

July 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 Phelps, 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 Phelps (Town) is located in Ontario County (County) and has a population of approximately 7,000 residents. The Town includes within its borders the Village of Phelps and a portion of the Village of Clifton Springs. The Town is governed by an elected five-member Town Board (Board), which comprises the Supervisor and four Board members. The Board is responsible for the general oversight and control of the Town's operations and finances. The Supervisor serves as the Town's chief executive officer and chief financial officer and is responsible for the day-to-day management of Town operations. The Supervisor is also the Town's budget officer. The Supervisor has a bookkeeper to assist with this duty.

The Town provides services to its residents that include street maintenance, snow removal, fire protection, water, planning, zoning and general government administration. These services are financed primarily through real property taxes, sales tax, user charges and State aid. The Town accounts for most of its financial activity in the town-wide (TW) general fund and the town-outside village (TOV) general and highway funds.<sup>1</sup> The Town's budgeted appropriations for the 2015 fiscal year are approximately \$3.6 million.

## Objective

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

- Did the Board establish a budget process and appropriately use reserves to fund Town operations while maintaining a stable tax rate?

## Scope and Methodology

We examined the Town's financial management for the period January 1, 2011 through March 27, 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.

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<sup>1</sup> The TW general fund has a tax base that encompasses the whole Town, including the Villages. The TOV general and highway funds have tax bases that encompass the portion of the Town that lies outside the Villages.

**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 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 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

The Board is responsible for making sound financial decisions that are in the best interests of the Town and the taxpayers that fund its operations. This requires the Board to balance the level of services desired and expected by the Town's residents with the ability and willingness of the residents to pay for such services. It is important that the Board adopt long-term plans that set forth the Town's financial objectives and goals. The Board should also establish written policies and procedures to govern budgeting practices and the funding levels of established reserves.<sup>2</sup> The use of reserve funds can provide officials with a budgetary option to help mitigate the need to cut services or substantially raise the tax rate. If these practices are implemented and followed, only the necessary amount of real property taxes will be raised and user fees charged. As a result, taxpayers can have assurance that their moneys are well managed.

The Board and Town officials have not developed adequate policies and procedures or financial plans to govern budgeting practices. Due to a lack of budgetary guidance, Town officials adopted budgets which resulted in erratic swings in the tax rate. In addition, although the Town has four reserve funds, the purposes and funding levels of the reserves have not been established. Finally, the Board and Town officials have not formally established a multiyear financial and capital plan.

### Budgeting Practices

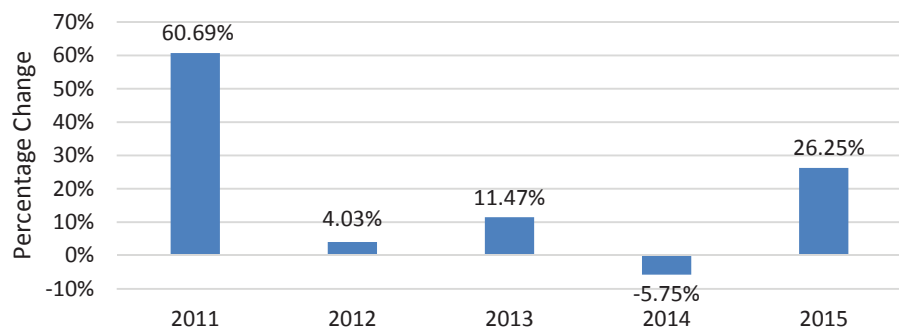
It is important for the Board to implement policies and procedures to assist in developing and monitoring accurate and realistic annual budgets. The Board should develop budget estimates based on the most accurate and up-to-date financial information available, including prior years' operating results, past expenditure trends, anticipated future needs and available information from outside sources related to projected changes in significant revenues or expenditures. Expenditures must be funded by budgeted revenues, including the calculated real property tax levy necessary to close projected gaps. In addition, it is important for the Board to follow proper budgetary procedures and to estimate and allocate revenues to ensure that the real property tax levies are reasonable. The budget also serves as a way to communicate to taxpayers the manner in which local officials plan to spend their tax dollars. Estimates based on valid assumptions can help ensure that the real property tax levy is not more than necessary.

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<sup>2</sup> The Board may establish and place moneys into reserve funds to finance the future costs of a variety of items or purposes. The Board is responsible for ensuring that reserve funds are maintained in accordance with statutory requirements and are in the Town's best interest.

The Board and Town officials did not adopt detailed policies and procedures to govern the budget process. The lack of clear budget policies and procedures contributed to a substantial increase in the Town's tax rate for the 2011 fiscal year when the overall tax rate increased 60.69 percent in the TW general fund. This substantial increase was primarily due to the Board adopting a budget that corrected<sup>3</sup> the allocation of sales and use tax revenue allocating it to the part-town fund. The tax rate fluctuations for fiscal years 2012, 2013 and 2014, comprising increases of 4.03, 11.47<sup>4</sup> and a decrease of 5.75 percent, respectively, were more manageable. However, in 2015 there was another substantial rate increase of 26.25 percent due to a lack of a clear understanding of the budgeting process. Town officials built their budget using a real property tax levy projection based upon what they considered to be an acceptable tax increase. However, officials erroneously used the Town's total assessed value instead of the taxable assessed value to project the tax rate. When the County calculated the tax bills using the correct taxable assessed value figure, the resulting tax rate for taxpayers was much higher than what Town officials had anticipated. Erratic swings in the tax rate can be disruptive to taxpayers who are trying to live within their own household budgets.

**Figure 1: Percent Change in Town-wide Tax Rate Fiscal Years 2011-15**



## Financial 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 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, set long-term

<sup>3</sup> This error went undetected for several years preceding 2011.

<sup>4</sup> Due primarily to the increased costs of the New York State and Local Retirement System and health insurance.

priorities and goals and avoid large fluctuations in tax rates. It also allows them to assess the impact and merits of alternative approaches to financial issues, such as accumulating money in reserve funds<sup>5</sup> 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. Town officials told us they informally discuss short-term and long-term planning but have not developed a written comprehensive multiyear financial and capital plan.

## Recommendations

The Board should:

1. Establish written policies and procedures to govern the budgeting process.
2. Develop formal plans for establishing, funding and using reserves.
3. Develop a multiyear financial plan to establish the goals and objectives for funding long-term operating and capital needs. This plan should address the use of unexpended surplus funds and the necessity and funding of reserves. The plan should be monitored and updated on an ongoing basis.

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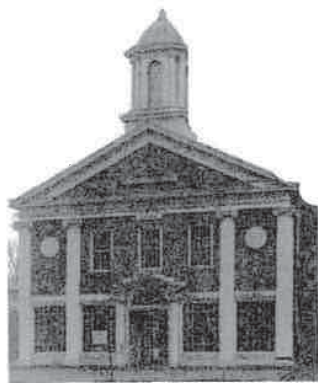
<sup>5</sup> Reserves are an important planning tool to save funds over a series of years for future needs. Town officials can legally set aside, or reserve, portions of fund balance to finance future costs for a specified purpose.



## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



# Town of Phelps - ONTARIO COUNTY

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79 Main Street  
Phelps, New York 14532

Telephone: (315) 548-5691  
Fax: (315) 548-5754

July 15, 2015

## Town Officers

### *Supervisor*

Norman Teed  
(315) 548-5691 Ext. 302

### *Town Clerk/Tax Collector*

Linda Nieskes  
(315) 548-5691 Ext. 300

### *Councilmen*

Carl Beechler  
Dennis King  
Kent Ridley  
Arthur Ruthven

### *Highway Supt.*

Terry Featherly  
(315) 548-4043  
Fax: (315) 548-3623

### *Assessor*

Cynthia Loncosky  
Sole Appointed  
(315) 548-2973 Ext. 304  
Fax: (315) 548-5502

### *Bookkeeper*

Barbara Middlebrook  
(315) 548-5691 Ext. 301

### *Code Enforcement Officer*

Edward Clark  
(315) 548-2971 Ext. 305

### *Building & Zoning Inspector*

Steven Studley  
(315) 548-2971 Ext. 305

### *Water Department*

Michael Vienna  
(315) 548-5691 Ext. 309

Division of Local Government and School Accountability  
Office of the State Comptroller  
The Powers Building  
16 West Main Street - Suite 522  
Rochester, NY 14614  
Attn: Edward Grant, Chief Examiner

Dear Mr. Grant,

The Town of Phelps responds to your recommendations as follows:

1. Establish written policies and procedures to govern the budgeting process.

The Town Board will look into and work on developing policies.

2. Develop formal plans for establishing, funding and using reserves.

The Town has established various reserves in the past years. As the establishing for these reserves funds could not be located, the Town Board will adopt resolutions to re-establish these reserve funds and provide a maximum cap for the funding of these reserves. In addition, the Town Board will continue to work on a formal written Capital Plan.

3. Develop a multiyear financial plan to establish the goals and objectives for funding long-term operating and capital needs. This plan should address the use of unexpended surplus funds and the necessity and funding of reserves. The plan should be monitored and updated on an ongoing basis.

The Town will develop a multiyear financial plan that would especially address capital needs and the future growth of the Town of Phelps. As part of this process, it is desired that a policy for the retention of the unreserved fund balance will be established.

Thank you for this opportunity to respond to your draft audit.

Sincerely,

Norman Teed,  
Supervisor

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## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

The objective of our audit was to review the Town's financial management practices for the period January 1, 2011 through March 27, 2015. To achieve our audit objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed Town officials to obtain an understanding of the Town's operations, including budgeting practices, establishing and using reserve funds and financial planning.
- We analyzed changes in the Town's tax rate for the fiscal years 2011 through 2015.
- We reviewed all the Town's reserves for fiscal years 2012 through 2014 to verify if the reserves were properly established, authorized and accounted for.

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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