



Town of Mentz Board Oversight

Report of Examination

Period Covered:

January 1, 2013 – September 6, 2016

2016M-403



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2017

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 Mentz, entitled Board Oversight. 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 Mentz (Town) is located in the central part of Cayuga County (County) and includes the Village of Port Byron (Village) within its boundaries. The Town covers approximately 17 square miles and serves approximately 2,300 residents. The Town is governed by an elected Town Board (Board), which is composed of four Board members and a Town Supervisor (Supervisor). The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor is the chief executive officer and chief financial officer and is responsible for maintaining the financial records and providing monthly reports to the Board that summarize the Town's financial activities.

The Town provides a variety of services to its residents, including a justice court, fire protection, highway maintenance, snow removal and general government support. The Town finances these services primarily with real property and sales taxes. The Town's 2016 budgeted appropriations for all funds totaled approximately \$876,000.

The town-wide (TW) general and highway funds have tax bases that encompass the entire Town, including the Village. The Town-outside-village (TOV) general and highway funds have tax bases that encompass the portion of the Town that lies outside of the Village.

Objective

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

- Did the Board provide adequate oversight of the Town's financial operations?

Scope and Methodology

We examined the Board's oversight of financial operations for the period January 1, 2013 through September 6, 2016. Additionally, we extended our scope to review the Town's 2017 tax cap filing and adopted budget.

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 recommendations and indicated they planned 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 Clerk's office.

Board Oversight

The Board is responsible for the Town's financial oversight, which includes adopting a comprehensive multiyear financial and capital plan to estimate the future costs of ongoing services and to set long-term priorities and funding goals and adopting a fund balance policy to determine a reasonable portion of fund balance to retain to help fund these goals. The Board must adopt structurally balanced budgets that provide sufficient revenues to finance recurring expenditures, while providing desired services on a continuing basis and complying with State laws limiting the tax levy, and must perform annual audits of the books and records of Town officials or employees who receive or disburse money on the Town's behalf.

The Board has not adopted a comprehensive multiyear financial and capital plan or a fund balance policy. Furthermore, the Board has adopted budgets that overestimated expenditures for the TOV highway fund. As a result, the TW general and TOV highway fund balances at the end of 2015 were \$409,000 and \$267,000, or 133 percent and 68 percent of 2016 appropriations, respectively. In addition, the Town's 2016 tax levy exceeded the property tax cap for that year by \$4,260. Further, the Board did not perform annual audits of the books and records of Town officials or employees who received or disbursed money. As a result, the Town's tax levies may have been higher than necessary, including \$4,260 that was required to be set aside to reduce the 2017 tax levy. However, because the Board did not use the \$4,260 to reduce the 2017 levy, it should create and fund a reserve equal to \$4,260 and use it to offset the 2018 property tax levy. In addition, the Board's ability to monitor the Town's financial operations is severely diminished.

Budgeting Practices

It is important for the Board to develop and adopt a comprehensive multiyear financial, capital and reserve fund plan to estimate the future costs of ongoing services, capital needs and reserve funding. Effective plans project operating and capital needs and financing sources over a three- to five-year period, identify developing revenue and expenditure trends and set long-term priorities and goals. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the financial procedures and priorities set by Town officials. To be most effective, Town officials must monitor and update long-term plans on an ongoing basis to ensure that decisions are guided by accurate information. The Board should also develop and adopt a fund balance policy to determine a reasonable portion of fund balance to retain to help fund these goals.

The Board has not developed and adopted a comprehensive multiyear financial and capital plan or a fund balance policy. Therefore, in 2013, when the Town sold a medical building for approximately \$204,000, the TW general fund had an operating surplus of approximately \$151,000 which resulted in an ending fund balance of approximately \$364,000. Although the Town received a large sum from a one-time revenue source, it would have been prudent to offset this with a one-time expenditure such as bridge repairs, which Town officials stated there is a need for, and bridge repair is a TW highway function which could have been funded with a transfer from the TW general fund. The Board did not do so because it did not have a plan to address the excessive accumulation of fund balance. The Board continued to adopt budgets resulting in operating surpluses in the TW general fund in 2014 and 2015 totaling approximately \$45,000. This resulted in an ending fund balance in the TW general fund of approximately \$409,000 at the end of the 2015, or 133 percent of 2016 appropriations.

In addition, the Board overestimated expenditures in the TOV highway fund for the last three years, specifically for machinery, contractual and equipment, and snow removal personal services and contractual, and has therefore accumulated a large fund balance from approximately \$90,000 in 2013 to approximately \$267,000 in 2015, or 68 percent of 2016 appropriations.

Figure 1: TOV Highway Fund Budget, Operating Results and Fund Balance

| | 2013 | 2014 | 2015 | Total |
|--|-----------|-----------|-----------|-----------|
| Beginning Fund Balance | \$90,296 | \$130,910 | \$196,357 | \$417,563 |
| Actual Revenues | \$268,070 | \$281,549 | \$269,248 | \$818,867 |
| Appropriations | \$278,445 | \$291,589 | \$283,485 | \$853,519 |
| Actual Expenditures | \$227,456 | \$216,102 | \$198,759 | \$642,317 |
| Expenditure Variance | \$50,989 | \$75,487 | \$84,726 | \$211,202 |
| Expenditure Variance Percentage | 18% | 26% | 30% | 25% |
| Operating Surplus | \$40,614 | \$65,447 | \$70,489 | \$176,550 |
| Ending Fund Balance | \$130,910 | \$196,357 | \$266,846 | \$594,113 |
| Less: Restricted and Appropriated Fund Balance | \$30,111 | \$66,872 | \$79,347 | \$176,330 |
| Unassigned Fund Balance | \$100,799 | \$129,485 | \$187,499 | \$417,783 |
| Ensuing Year's Budgeted Appropriations | \$291,589 | \$283,485 | \$275,310 | \$850,384 |
| Unassigned Fund Balance as a Percentage of Ensuing Year's Appropriations | 35% | 46% | 68% | 49% |

Property Tax Cap — In 2011, the State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap, that restricts the amount of property taxes local governments can levy. Under this legislation, the property tax levied annually by local governments generally cannot increase more than 2 percent or the rate of inflation, whichever is lower. Local governments are permitted to override the levy limit if certain actions are taken.

The law became effective for fiscal years that began in 2012. If it is determined the Town levied taxes in excess of the applicable levy limit without properly overriding, the excessive amount must be placed into a special reserve to be used to reduce the ensuing year's tax levy.

The Town's 2016 tax cap filing with our office showed that the Town would be over the property tax cap for that year. However, the Board failed to pass a local law overriding the property tax cap or to modify the budget to stay within the cap. As a result, the Town's property tax levy exceeded the cap limit by \$4,260; we informed Town officials that the law requires this excess to be set aside in a reserve and used to offset the 2017 tax levy. Although the 2016 tax cap filing stated that the tax cap reserve money of \$4,260 from the 2016 overage would be used to reduce the 2017 levy and Town officials stated that was their intent, the official minutes of the Board and the copy of the 2017 adopted budget submitted to the County did not include the reserve money, and therefore, the levy was not reduced.

Because the Board has not adopted a comprehensive multiyear financial and capital plan or a fund balance policy and has adopted budgets that overestimated expenditures and exceeded the property tax cap, the Town's tax levies have been higher than necessary.

Annual Audit

According to New York State Town Law, by January 20th of each year, each Town officer or employee who received or disbursed money on the Town's behalf in the previous year must provide an accounting to the Board and produce all books, records, receipts, vouchers and canceled checks for audit. The Board is required to annually audit, or engage an independent accountant to audit, these records. The Board should ensure that the completion and results of the audit are included in its meeting minutes and that documentation is filed detailing how the audit was performed and the records that the Board reviewed.

The Board did not audit the records of Town officers or employees that received or disbursed Town money from 2013 through 2015. Although the 2015 Board minutes indicated that the Board completed an audit of the 2014 Town Clerk's and Justice's records, Town officials told us that no audit had taken place. The annual audit provides assurance that public funds are handled properly, identifies conditions that need improvement and provides oversight of financial operations. When the Board fails to complete annual audits, its ability to monitor the Town's financial operations is severely diminished.

Recommendations

The Board should:

1. Develop and adopt a multiyear financial and capital plan for a three- to five-year period and a fund balance policy.

2. Adopt budgets with realistic estimates for revenues and expenditures.
3. Adopt budgets that are compliant with, or properly override, the property tax cap. Create and fund a reserve equal to \$4,260 as required and use it to offset the 2018 property tax levy.
4. Conduct annual audits of the records and reports of all Town officers and employees who received or disbursed money during the preceding fiscal year, or engage an independent accountant to conduct the audits. The Board should ensure that the completion and results of the audit are included in its meeting minutes and that documentation is filed detailing how the audits were performed and the records that the Board reviewed.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



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February 28, 2017

Office of the State Controller
Mr. Edward V. Grant Jr., Chief Examiner
The Powers Building
16 W. Main Street – Suite 522
Rochester, NY 14614

Dear Mr. Grant:

The Town of Mentz was audited by a team of three examiners from the Rochester Regional Office of the State Controller.

The audit period covered was January 1, 2013 through September 6, 2016. The audit team was professional and positive to work with. The findings and recommendations will be used as a tool to better manage the Town of Mentz.

In closing, I would comment that I concur with the audit findings and recommendations.

Thank you and your team for their assistance.

Sincerely,

Richard Nielens, Jr.
Mentz Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials and employees to gain an understanding of financial operations and budgeting.
- We reviewed the Town's policies and procedures, Board meeting minutes and resolutions.
- We analyzed fund balances from 2013 through 2015.
- We compared budgeted revenues and appropriations to operating results for 2013 through 2015 for the major operating funds.
- We reviewed the Town's adopted budgets for 2013 through 2015 and monthly reports provided to the Board.
- We compared revenue, expenditure and balance sheet account balances in the 2015 Annual Update Document to the Town's records to assess the reliability of financial data.
- We reviewed the Town's tax cap filing and interviewed Town officials to determine if the Town exceeded its 2016 and 2017 tax caps.
- We reviewed the Town's 2017 tax cap filing and adopted budget to determine if the property tax levy was reduced by \$4,260, the amount by which the 2016 levy exceeded the cap.

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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