

Village of Hewlett Bay Park

Financial Management

JUNE 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Village of Hewlett Bay Park

Audit Objective

Determine whether the Village of Hewlett Bay Park (Village) Board adopted realistic budgets, and monitored and effectively managed the fund balance.

Key Findings

The Board did not adopt realistic budgets, or monitor and effectively manage fund balance. As a result, more taxes were levied than needed to fund operations. For example, about \$6,000 was needed to balance the budget in 2020-21; however, the property tax levy was \$209,000. For the four fiscal years reviewed, the Board:

- Maintained an excessive level of unassigned surplus fund balance in the general fund. Balances ranged between \$273,348 and \$348,648, or between 45 and 61 percent of the ensuing year's budget.
- Underestimated revenues by a total of \$420,341 and overestimated expenditures by a total of \$608,117.
- Budgeted for a large operating deficit each year, ranging between \$260,003 and \$293,105. However, actual deficits for that period ranged between \$5,547 and \$42,216. This practice contributed to the continued accumulation of surplus fund balance.

Key Recommendations

The Board should:

- Develop reasonable budgets and maintain a reasonable fund balance level.

Village officials generally agreed with our findings and indicated they have begun to initiate corrective action.

Background

The Village is located in the Town of Hempstead in Nassau County and is governed by an elected Board of Trustees (Board) composed of a Village Mayor (Mayor), Deputy Mayor and three Trustees. The Board appointed the Deputy Mayor to serve as the budget officer. The budget officer and Mayor work together to develop the budget. The Village Treasurer (Treasurer) serves as the chief fiscal officer.

2020-21 Quick Facts

Expenditures	
Budgeted	\$605,803
Less: Actual	450,899
Overestimated	\$154,904
Revenues	
Estimated	\$312,697
Less: Actual	445,352
Underestimated	\$132,655
Surplus Fund Balance	
Appropriated	\$293,105
Less: Used	5,547
Overestimated	\$287,558

Audit Period

March 1, 2017 – February 28, 2021

Financial Management

What is Effective Financial Management?

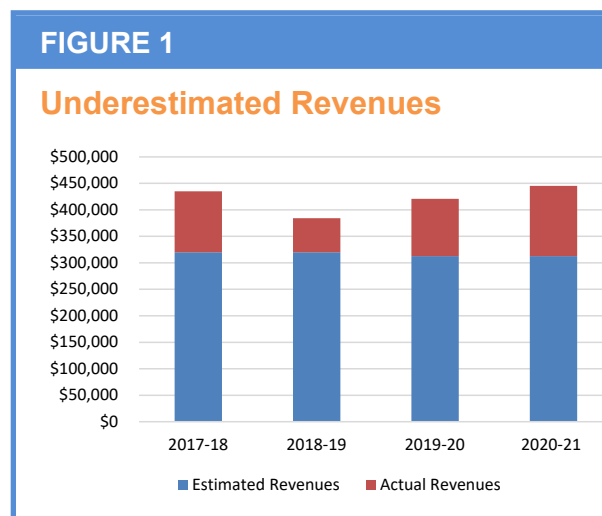
Effective financial management begins with the board adopting realistic and balanced budgets, based on historical or known trends. To accomplish this, officials must ensure budgeted revenues and appropriations are accurately estimated. Officials may also appropriate a portion of fund balance to help finance the next year's budget. The appropriation of fund balance should result in an operating deficit (expenditures exceeding revenues) equal to the amount of fund balance that was appropriated and a reduction in surplus fund balance.

Surplus fund balance should compensate for cash flow fluctuations and provide a cushion against unforeseen events but should not exceed a reasonable amount, consistent with prudent budgeting practices. This can be achieved with a fund balance policy that establishes a minimum and maximum amount of unassigned fund balance to be maintained and procedures that provide guidelines on how to accomplish this.

The budget officer is responsible for preparing the proposed budget and presenting it to the board. Village Law section 5-506 requires that the proposed budget include a schedule of fund balance estimated to be on hand at the close of the current year, classified by funds, together with a breakdown of fund balance estimated for encumbrances, amounts appropriated for the ensuing fiscal year's budget, amounts reserved for stated purposes, including reserve funds, and the remaining unassigned fund balance.

The Board Underestimated Revenues and Overestimated Appropriations

The Board consistently adopted budgets that underestimated revenues and overestimated appropriations. Between 2017-18 and 2020-21, revenues were underestimated each year by a total \$420,341. While the Village realized average revenues of \$421,334 over the four-year period, estimates for those same years averaged only \$316,249. For example, officials estimated revenues of \$319,801 in 2017-18, but received \$434,851. Officials continued to underestimate revenues in 2018-19, 2019-20 and 2020-21 (Figure 1).



Several revenue estimates contributed to the variance, such as license and permits (underestimated by \$253,803 or 470 percent), State aid (underestimated by \$113,817 or 226 percent), and fines and forfeitures (underestimated by \$20,543 or 68 percent).

In addition, appropriations were overestimated by a total of \$608,117 (26 percent) for the 2017-18 through 2020-21 fiscal years (Figure 2).

Several appropriations contributed to the variance, the largest being street maintenance (overestimated by \$263,833 or 84 percent), special items (overestimated by \$63,328 or 655 percent) and street lighting (overestimated by \$62,906 or 329 percent).

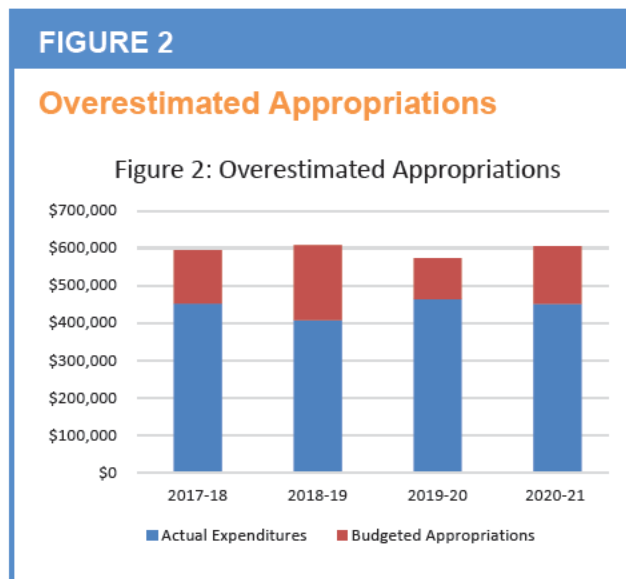
The Village Clerk (Clerk) said the Board approved building permit fee increases after the adoption of the 2017-18 budget.

The Mayor said that they followed their accountant's advice to estimate revenues and expenditures conservatively and he believes that most of the underestimated revenues, such as building permits, fines and forfeitures, and State aid cannot be anticipated.

Although Village officials told us that they review the previous year's actual results to form the recommended amounts in the proposed budget document, the Village consistently underestimated revenues and overestimated appropriations. This practice is misleading to taxpayers and makes it difficult for the Board to effectively manage financial operations in a transparent manner.

The Board Allowed Excessive Fund Balance to Accumulate

The Board adopted a fund balance policy on September 28, 2011. While the policy recognizes that fund balance maintenance is essential to the Village's financial integrity; defines fund balance; instructs that fund balance only be appropriated by resolution; and that amendments, modifications, or transfers be Board approved, it does not identify the amount of unassigned surplus fund balance that is considered reasonable to maintain.



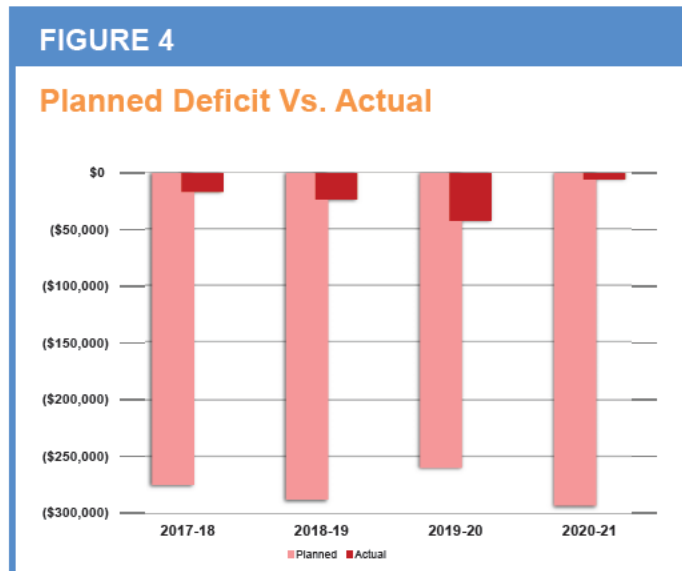
The Village maintained a high level of unassigned surplus fund balance in the general fund from 2017-18 through 2020-21 ranging between \$273,348 in 2019-20 (45 percent of the ensuing year's budget), and \$348,648 in 2018-19 (61 percent of the ensuing year's budget) (Figure 3).

Figure 3: Summary of Fund Balance as a Percentage of Next Year's Budget

	2017-18	2018-19	2019-20	2020-21
Total Beginning Fund Balance	\$657,320	\$640,713	\$617,272	\$575,056
Add: Operating Surplus (Deficit)	(16,607)	(23,441)	(42,216)	(5,547)
Total Year-End Fund Balance	\$640,713	\$617,272	\$575,056	\$569,509
Less: Restricted Funds				
- Non-spendable	\$8,582	\$8,621	\$8,603	\$8,841
Less: Appropriated Fund Balance for Next Year	288,062	260,003	293,105	293,105
Total Unassigned Fund Balance at Year-End	\$344,069	\$348,648	\$273,348	\$267,563
Next Year's Budget	\$607,860	\$572,704	\$605,803	\$514,469
Unassigned Fund Balance as Percentage of Next Year's Budget	57%	61%	45%	52%

Between 2017-18 and 2020-21, the Board appropriated fund balance each year to balance the budgets, planning for operating deficits ranging between \$260,003 in 2019-20 and \$293,105 in 2020-21. However, since the Board consistently adopted unrealistic budgets that underestimated revenues and overestimated appropriations, actual operating results were better than expected, and most of the appropriated fund balance was not needed to finance operations (Figure 4).

For example, in 2018-19, the Village planned for an operating deficit of \$288,062 but actual results were better than planned, realizing a deficit of only \$23,441, leaving \$264,621 (92 percent) of the 2017-18



appropriated fund balance unused. When the unused appropriated fund balance is added back to the unassigned fund balance for 2017-18, surplus fund balance increases to \$608,690, 100 percent of the 2018-19 budget. Similar results occurred for 2018-19 and 2019-20, with recalculated unassigned surplus fund balance amounting to \$566,435 and \$560,906, respectively (Figure 5).

Figure 5: Unassigned Funds at Year End

	2017-18	2018-19	2019-20
Reported Unassigned Fund Balance	\$344,069	\$348,648	\$273,348
Add: Unused Appropriated Fund Balance	264,621	217,787	287,558
Recalculated Balance	\$608,690	\$566,435	\$560,906
As Percentage of Next Year's Budget	100%	99%	93%

Further, if trends continue and the appropriated fund balance of \$293,105 is not used in 2021-22, unassigned fund balance would continue to increase to more than 100 percent of the next year's budget.

The Mayor said that Board members did not know that the policy should define a reasonable amount of unassigned fund balance. The Mayor and Clerk also said that the Village wanted to build fund balance to use on capital projects such as road work, streetlights and infrastructure repairs. However, the Village does not have multiyear financial and/or capital plans to support this statement, did not establish a capital reserve to actually restrict the money for such use, and the Board meeting minutes did not include discussion of these plans.

Because the Board has not established a threshold amount in the existing fund balance policy, and there are no written procedures for managing a reasonable level of fund balance, the Village accumulated an excessive amount of unassigned fund balance. This resulted in taxes that were higher than necessary. Despite significant appropriations of surplus fund balance each year intended to lower the levy, during the last four fiscal years, the Village tax levy was steady at approximately \$209,000.

For example, in 2020-21, the Village appropriated \$293,105 of surplus fund balance and collected \$209,000 in real property taxes. However, only \$5,547 of the appropriated fund balance was actually used to finance operations, which means the Village could have financed the full cost of its 2020-21 expenditures without levying any real property taxes for 2020-21 had it adopted more realistic estimates for revenues and expenditures. The actual revenues of \$445,352 for 2020-21 included \$209,000 of real property taxes; subtracting the real property tax revenues would leave \$236,352 of other revenues to finance operations.

...[T]he Village accumulated an excessive amount of unassigned fund balance.

With the adjusted revenues of \$236,352, the Village would have needed to use \$214,547 of fund balance (which is less than the \$293,105 of fund balance the Board appropriated for 2020-21) to fully finance the total expenditures of \$450,899. The Board repeated this practice each of the four years in our audit period and, while it is understandable the Board would not completely eliminate the real property tax levy in one year, this shows the Board could have reduced its tax levy over the four-year period without having a detrimental impact on its financial position.

The Budget Officer Did Not Include Fund Balance Schedules In Proposed Budgets

The proposed budget documents presented to the Board for 2017-18 through 2020-21 did not include a schedule of fund balance as required. Instead, the schedules provided to the Board included only the budget officer's recommendation for appropriated surplus fund balance. In addition, although each year's proposed budget document included the recommended appropriated surplus fund balance amount, the Board did not appropriate the fund balance by resolution, which is required by Village policy. Board meeting minutes did not include any resolution or reference to the appropriated fund balance amount each year.

Without the fund balance schedule, the Board and taxpayers have no ability to know how much surplus fund balance is on hand and no ability to notice any upward or downward trend in fund balance.

The Mayor said that Village officials had no knowledge of the requirement to present a fund balance schedule with the proposed budget. While the Mayor and Clerk said that the fund balance policy was established prior to their terms and, because of that, they were not aware of the policy's requirements, officials should be aware of and adhere to all Village policies.

The Board's ability to effectively manage fund balance and appropriately inform taxpayers of the Village's use of fund balance is limited because the Board did not receive the required fund balance schedule. Furthermore, the lack of Board resolution for the appropriated surplus fund balance amounts resulted in a lack of transparency to taxpayers and contributed to the excessive accumulation of fund balance to occur unnoticed.

What Do We Recommend?

The Board should:

1. Ensure adopted budgets contain realistic estimates that are based on historical trends and discontinue the practice of appropriating fund balance that will not be used to fund operations.

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2. Revise the fund balance policy to define reasonable levels of fund balance to be maintained and include procedures on how to maintain it effectively.
 3. Reduce surplus fund balance to a reasonable amount by using it to fund needed reserves (i.e., planned capital projects) and/or reducing the tax levy.
 4. Ensure compliance with the fund balance policy and take formal action for any fund balance appropriation.
 5. Ensure that the budget officer provides a fund balance schedule, as required.

The budget officer should:

6. Prepare and attach a complete fund balance schedule to the proposed budget and ensure that the schedule includes the fund balance estimated to be on hand at the close of the current year, amounts appropriated for the ensuing fiscal year's budget, and the remaining unassigned fund balance, as required.

Appendix A: Response From District Officials

INCORPORATED
VILLAGE OF HEWLETT BAY PARK

ANTONIO OLIVIERO, DEPUTY MAYOR
JAY LEVY, TRUSTEE
GAIL RUBEL, TRUSTEE
RENEE ZYLBERBERG, TRUSTEE



MICHELLE BLANDINO, CLERK TREASURER
A. THOMAS LEVIN, VILLAGE ATTORNEY
BRIAN S. STOLAR, VILLAGE ATTORNEY
DENNIS FROMIGIA, BUILDING INSPECTOR

30 PIERMONT AVENUE, HEWLETT N.Y. 11557
TELEPHONE 516.295.1400 - FACSIMILE 516.295.1406

ALEX SALOMON, MAYOR

June 2, 2022

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Office of the State Comptroller
Division of Local Government and School Accountability
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Attention: Ira McCracken, Chief Examiner

Dear Mr. McCracken:

On behalf of the Village of Hewlett Bay Park (the "Village") Board of Trustees (the "Board"), please accept this letter as a combined response and Corrective Action Plan addressing the findings and recommendations contained in the New York State Office of the State Comptroller's ("Comptroller's Office") Report of Examination 2022M-30 for the period March 1, 2017 through February 28, 2021 (the "Report").

The Board is extremely grateful for the guidance and assistance provided by the Comptroller's Office and believes that the recommendations have helped the Board identify opportunities to improve its financial management. Over a period of months, the Comptroller's Office conducted a thorough audit assessment, reviewing a significant amount of financial data and numerous documents covering a wide spectrum of Village functions and interviewing staff members and Village officials and Board members. The assessment was performed in a professional manner, and the Village very much appreciates that the Comptroller's Office audit team caused the least amount of possible disruption to the daily employee work routines while enabling a seamless continuation of Village business during a pandemic.

With respect to the findings and recommendations relating to the Village's financial management, the Board concurs with the findings. Notwithstanding the need for certain improvements, identified as recommendations in the report and already incorporated by the Village as provided in the Corrective Action Plan below, the Board submits that the Report confirms that there were no findings of financial improprieties.

The Corrective Plan that follows indicates the Board's responses to the Report recommendations, as listed below.

1. The Board of Trustees should ensure that adopted budgets contain realistic estimates of revenues and appropriations that are based on historical trends and discontinue the practice of appropriating fund balance that will not be used to fund operations.

For the 2022-23 budget year (March 1, 2022 through February 28, 2023), the Board applied historical data over the course of the last three (3) budget years to estimate revenues and appropriations. The Board also considered potential large expenditures and impacts to revenue that may differ as a result of coming out of a pandemic. By using this historical averaging method and considering the potential of any known and anticipated changes relative to the local financial impacts in the post-pandemic financial reality, the Board believes that the 2022-23 budget contains a more realistic anticipation of revenue and expenditures.

Additionally, the Board will continue to review the adopted budget in comparison to actual revenues and expenses to assess changes that would be appropriate for the subsequent fiscal year. This self-analysis performed over the course of the year will provide the Board with further data to utilize in preparing future budgets and further enable the Board to appropriate fiscally accurate appropriations necessary to fund operations.

2. The Village should revise the fund balance policy to define reasonable levels of fund balance to be maintained and include procedures on how to maintain it effectively.

The Board is in the process of reviewing its current fund balance policy, which was adopted in 2011, with its accountants and the Village Attorney to determine a policy that is in line with the Village's finances and its size. The Board expects to have the new policy in place in June 2022.

3. The Board should reduce surplus fund balance to a reasonable amount by using it to fund needed reserves (i.e., planned capital projects) and/or reducing the tax levy.

The Board recognizes the need to allocate funds to specific reserve funds. As part of its regular fiscal planning, and as incorporated in the 2022-23 budget and to be further expanded with additional reserve funds in its 2023-24 budget (and continuing going forward), the unassigned fund balance will be reduced to an appropriate level and will be in line with the fund balance policy.

4. The Board should ensure compliance with the fund balance policy and take formal action for any fund balance appropriation.

As noted in response to previous recommendations, it is the Board's intent to adopt a revised fund balance policy, take appropriate action to continually comply with the policy, and assure that all appropriations are made pursuant to an adopted fund balance appropriation.

5. The Board should ensure that the budget officer provides a fund balance schedule, as required.

The budget officer provided a fund balance schedule for the 2022-23 budget, and will continue to do so for future budgets.

6. The budget officer should prepare and attach a complete fund balance schedule to the proposed budget and ensure that the schedule includes the fund balance estimated to be on hand at the close of the current year, amounts appropriated for the ensuing fiscal year's budget, and the remaining unassigned fund balance, as required.

As noted in response to the previous recommendation, the budget officer provided this information as part of the 2022-23 budget, and will continue to do so for future budgets.

All members of the Board have reviewed, and concur with, this response. In the absence, and at the request, of the Mayor, I am submitting this response on behalf of the Village.

As provided in the aforesaid Corrective Action Plan, the Village has taken action to implement the Comptroller's recommendations and pledges itself to continue to apply all of the recommendations.

Please do not hesitate to contact the Village or Village staff should you wish to discuss any items in this response any further.

Respectfully,

Antonio Oliverio
Deputy Mayor

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following. We:

- Obtained and reviewed Village policies and procedures pertaining to financial management.
- Obtained and reviewed Board minutes to determine whether fund balance appropriations, amendments, modifications and transfers were made by Board resolution as required by Village policy.
- Obtained and reviewed the 2017, 2018, 2019 and 2020 management letters to determine whether there were any significant deficiencies.
- Interviewed the Mayor, Deputy Mayor, Clerk and one trustee to gain an understanding of the Village's financial operations, budget adoption process and budget monitoring practices.
- Obtained and reviewed supporting documents used to create preliminary budgets for 2017-18 through 2020-21.
- Compared the adopted budgets and actual results of operation for 2017-18 through 2020-21, identified and investigated the highest variances per year and determined whether planned deficits matched actual results.
- Analyzed fund balance by calculating unassigned fund balance as a percentage of the next year's budget and the percentage of appropriated fund balance used each year. When appropriated fund balance was not used, we recalculated unassigned fund balance by adding back unused appropriated amounts to the reported unassigned fund balance. We then determined the recalculated amounts' percentages of the ensuing years' budgets.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 provided 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 the CAP available for public review in the Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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Local Government and School Accountability Help Line: (866) 321-8503

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