

Village of Hewlett Neck

Financial Management

JULY 2022



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

Contents

Report Highlights	1
Financial Management.	2
What Is Effective Financial Management?.	2
The Board Underestimated Revenues and Overestimated Appropriations	2
The Board Allowed Excessive Surplus Fund Balance to Accumulate	5
The Clerk Did Not Include Fund Balance Schedules in Proposed Budgets	8
What Do We Recommend?	9
Appendix A – Response From Village Officials	10
Appendix B – Audit Methodology and Standards	12
Appendix C – Resources and Services.	14

Report Highlights

Village of Hewlett Neck

Audit Objective

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

Key Findings

The Board did not adopt realistic budgets, or monitor and effectively manage fund balance. The Board:

- Adopted budgets that were not based on historical revenue and expenditure trends. Revenues were underestimated by a total of \$334,095 and appropriations were overestimated by a total of \$171,095 from 2017-18 through 2020-21. As a result of the Village officials' budgeting practices, officials collected a four-year total of \$505,187 more than necessary in taxes.
- Maintained an excessive level of surplus fund balance in the general fund from 2017-18 through 2020-21 ranging between \$364,415 in 2017-18 (100 percent of the ensuing year's budget), and \$445,858 in 2019-20 (109 percent of the ensuing year's budget).

Key Recommendations

The Board should:

- Adopt realistic budgets based on historical trends and known plans for the fiscal year.
- Reduce surplus fund balance to a reasonable amount by using it to fund needed reserves and reducing the tax levy.

Village officials agreed with our recommendations and indicated they have initiated corrective action.

Background

The Village is located in the Town of Hempstead in Nassau County and is governed by an elected Board composed of a Village Mayor (Mayor) who is also the budget officer, a Deputy Mayor and three Trustees. The Village Clerk (Clerk) is responsible for the Village's day-to-day operations and the Village Treasurer (Treasurer) is the chief fiscal officer.

2020-21 Quick Facts

Expenditures	
Budgeted	\$407,916
Less: Actual	367,671
Overestimated	\$40,245
Revenues	
Estimated	\$300,644
Less: Actual	348,560
Variance	\$47,917
Surplus Fund Balance	
Appropriated Surplus	\$107,272
Less: Used	19,111
Overestimated	\$88,161

Audit Period

June 1, 2017 – November 30, 2020

We extended the audit period through May 31, 2021 to include the Village's fiscal year end.

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 that projected 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 fluctuations and provide a cushion against unforeseen events. However, it should not exceed a reasonable amount, consistent with prudent budgeting practices.

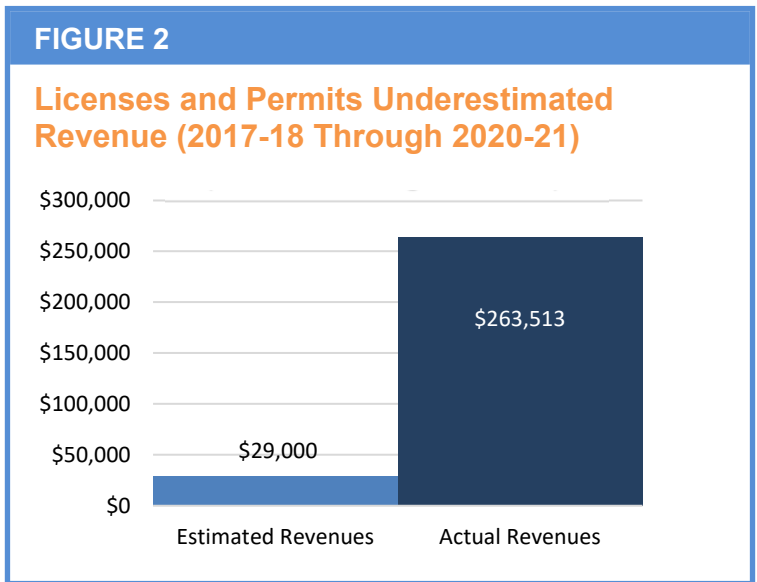
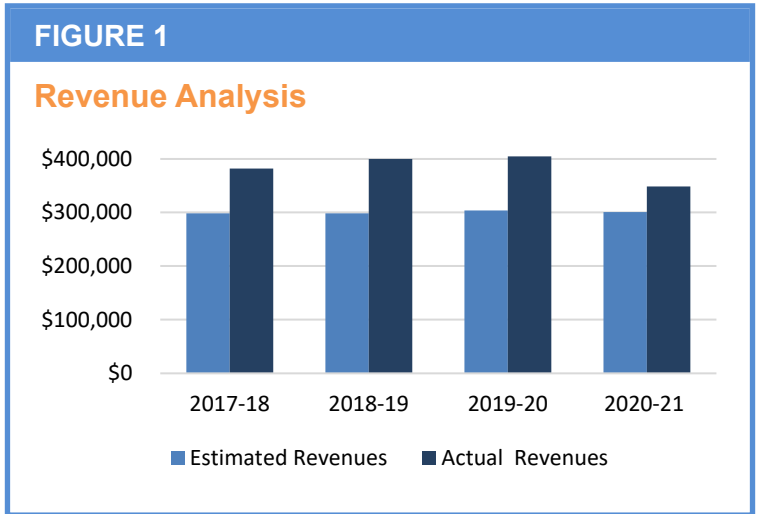
To ensure surplus fund balance is managed effectively, the board should adopt a policy that sets the amount of unassigned fund balance to be reasonably maintained, establishes procedures for maintaining surplus fund balance within that threshold and outlines how surplus fund balance should be used.

The budget officer is responsible for preparing the proposed budget and presenting it to the Board. Village Law section 5-506 requires 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

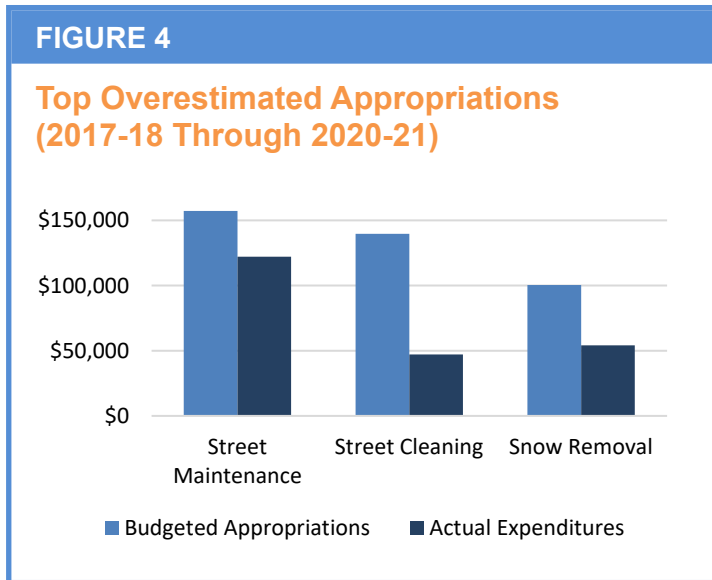
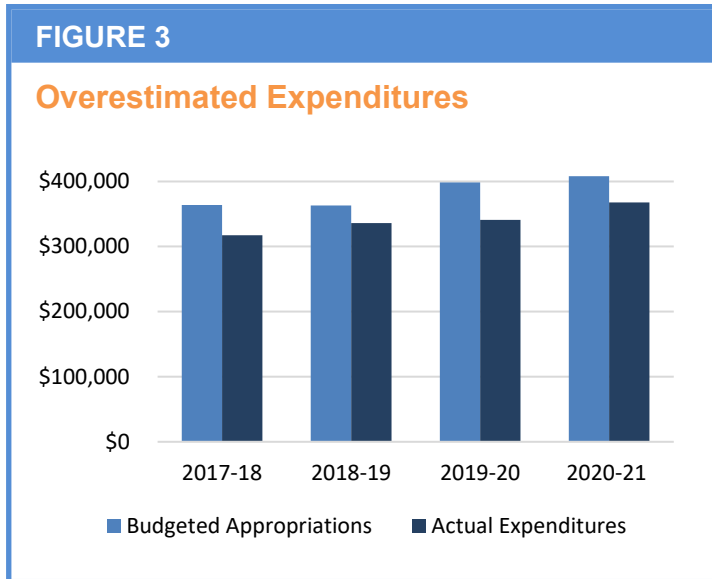
The Board consistently adopted budgets that underestimated revenues and overestimated appropriations. Between 2017-18 and 2020-21, revenues were underestimated each year totaling \$334,095. While the Village realized average actual revenues of \$383,680 over the four-year period, estimated revenues averaged only \$300,156. For example, officials estimated revenues of \$298,168 in 2017-18, but received \$381,819 (Figure 1).

Several revenue estimates contributed to the variance, the most significant being licenses and permits, which includes estimations for building permits (Figure 2). In 2017-18, the Village budgeted \$7,000 for licenses and permits, but collected \$52,908, 55 percent of the total revenue variance for the fiscal year. Licenses and permits were underestimated in 2018-19 by \$76,054, in 2019-20 by \$79,468 and in 2020-21 by \$33,083.



The Clerk and a Trustee said that most of the underestimated revenues, such as building permits, could not be anticipated because they are based on residents' decisions and neighborhood turnover. However, given the trend of actual licenses and permits revenues over the four-year period, it would have been reasonable for the Village to increase its estimates for this revenue.

In addition, appropriations were overestimated by a total of \$171,095 for the audit period (Figure 3). Several appropriations contributed to the variance, the largest being street maintenance, street cleaning and snow removal (Figure 4). For example, street cleaning was overestimated by \$14,292 in 2017-18, \$9,635 in 2018-19, \$43,268 in 2019-20 and \$25,317 in 2020-21.



The Mayor and Clerk said that the underspent appropriations, such as street cleaning and street maintenance, were due to a planned storm drain project that was postponed due to the COVID-19 pandemic shutdowns. While records confirmed the Village had been planning a storm drain project, the budgeted amounts exceeded the amounts in the documentation provided. Overall, the actual expenditures during the last four years were a third of the budgeted amounts. There were three requests for proposals for engineering services to start planning the project in June 2018, March 2019 and May 2019. The Village also obtained a draft drainage improvement plan in November 2019 and a final plan that was approved by the Board in April 2021. Construction was scheduled to

begin in the fall of 2021. The Clerk and a Trustee also said that snow removal was overestimated because weather cannot be easily anticipated. However, surplus fund balance should be used to cover unanticipated expenses and could have been used if needed.

Although officials said they review the previous year’s actual results to form the amounts in the ensuing year’s proposed budget, they consistently underestimated revenues and overestimated appropriations. This practice caused a lack of transparency and lead to taxpayers paying more than what was actually needed to finance Village operations, and made it difficult for the Board to effectively manage financial operations.

The Board Allowed Excessive Surplus Fund Balance to Accumulate

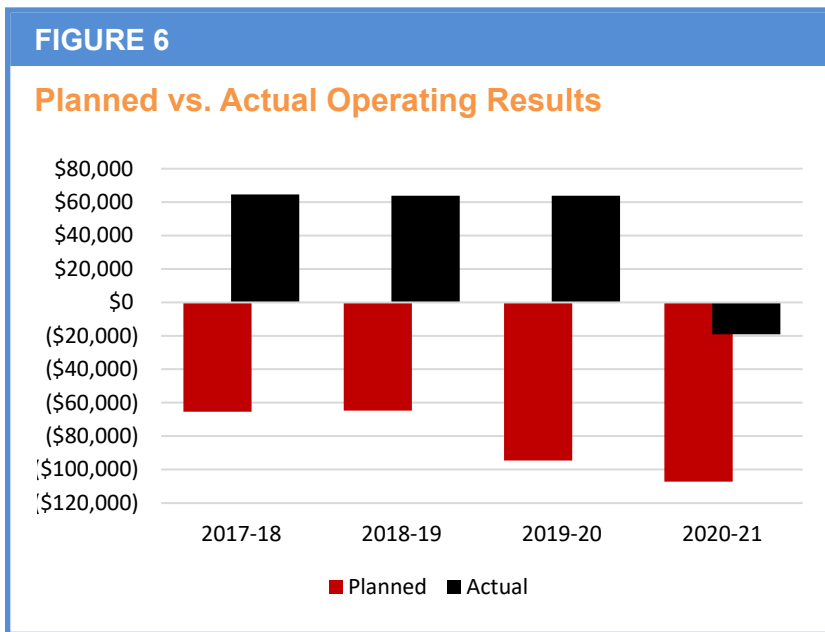
While the Village maintained a four-year average of \$406,995 in surplus fund balance, the Board did not establish a fund balance policy, develop written guidance for maintaining surplus fund balance or determine the amount of unassigned fund balance that is considered reasonable to maintain. Surplus fund balance accumulated to excessive levels due to operating surpluses in three of the four fiscal years reviewed. The Mayor said he was not sure whether a written fund balance policy was in place, and that the Village is working to establish written protocols for maintaining a reasonable level of fund balance.

The Village maintained a high level of unassigned surplus fund balance in the general fund from 2017-18 through 2020-21, ranging between \$364,415 in 2017-18 (100 percent of ensuing year’s budget) and \$445,858 in 2019-20 (109 percent of ensuing year’s budget), as indicated in Figure 5.

Figure 5: Unassigned Surplus Fund Balance at Year End

	2017-18	2018-19	2019-20	2020-21
Total Beginning Fund Balance	\$364,562	\$429,136	\$492,961	\$556,823
Add: Operating Surplus (Deficit)	64,574	63,825	63,862	(19,111)
Total Ending Fund Balance	\$429,136	\$492,961	\$556,823	\$537,712
Less Restricted Funds- Non-spendable	0	6,292	3,693	4,750
Less: Appropriated Fund Balance for the Ensuing Year	64,721	94,651	107,272	107,272
Total Unassigned Surplus Funds at Year End	\$364,415	\$392,018	\$445,858	\$425,690
Ensuing Year’s Budgeted Appropriations	362,890	398,295	407,916	529,755
Unassigned Funds as Percentage of Ensuing Year’s Budget	100%	98%	109%	80%

Between 2017-18 and 2020-21, the Board appropriated fund balance each year to balance the budgets, planning for operating deficits ranging between \$64,721 in 2017-18 and \$107,272 in 2020-21. However, since the Board consistently adopted budgets with underestimated revenues and overestimated appropriations, the Village realized operating surpluses in three of the four years reviewed, thus not using any of the appropriated fund balance in those years, and a much smaller deficit than it had planned for in the fourth year. (Figure 6).



For example, in 2017-18, the Village planned for an operating deficit of \$65,393 but instead realized a surplus of \$64,574, a variance of \$129,967 (199 percent), and increasing unassigned fund balance to \$429,136 (118 percent of the ensuing year’s budget). Similar results were found in 2018-19 and 2019-20. Results for the 2020-21 fiscal year show an operating deficit of \$19,111, leaving \$88,161 (82 percent) of the \$107,272 appropriated fund balance unused.

We recalculated unassigned fund balance to include unused appropriated fund balance. When the unused appropriated fund balance was added back to the reported unassigned fund balance for 2017-18, it increased to \$429,136, 118 percent of the ensuing year’s budget. Similar results occurred in 2018-19 and 2019-20, with recalculated unassigned fund balance amounting to \$486,669 and \$534,019, respectively (Figure 7).

Figure 7: Unassigned Funds at Year End

	2017-18	2018-19	2019-20	2020-21
Reported Unassigned Fund Balance	\$364,415	\$392,018	\$445,858	\$425,690
Add: Unused Appropriated Fund Balance	64,721	94,651	88,161	107,272 ^a
Recalculated Unassigned Fund Balance	\$429,136	\$486,669	\$534,019	\$532,962
Recalculated Fund Balance as Percentage of Ensuing Year's Appropriations	118%	122%	131%	101%
a) Projected 2021-22 unused appropriated fund balance				

If this trend continues and the appropriated fund balance of \$107,272 is not used in 2021-22, unassigned fund balance will increase to \$532,962, 101 percent of the ensuing year's budget.

The Clerk said that between 2017-18 and 2020-21, the budget included amounts for a planned capital project. Although the Mayor told us that the Village considered establishing a reserve fund for this project, the Board has not restricted, committed or assigned any portion of fund balance for planned projects.

For the last four fiscal years, the Village's tax levy was steady at approximately \$249,344. The Village's consistent budgeting practices of underestimating revenues and overestimating appropriations caused it to realize operating surpluses instead of the operating deficits it had budgeted for in three of the four years. As a result of the Village's budgeting practices, it collected a four-year total of \$505,187 more than necessary in taxes. For example, the Village collected approximately \$158,513 more in taxes than needed in 2019-20, meaning that the levy could have been as low as \$90,831 instead of the \$249,344 raised. Similar results occurred in 2017-18 and 2018-19, with \$129,967 and \$128,546 collected more than needed, respectively. The operating surpluses, which directly resulted in unused appropriated fund balance, combined with the Village's steady tax levy and the lack of guidance for maintaining fund balance, caused the excessive accumulation of surplus fund balance that could have been returned to taxpayers or used for Village purposes.

The Clerk Did Not Include Fund Balance Schedules in Proposed Budgets

During the development of the proposed budget, the Mayor, Clerk, Treasurer, available Trustees and the auditor hold a budget workshop meeting. The Mayor and Clerk said that at this workshop, they review a summary of the prior year's budget and actuals, along with the current year's budget and nine-month actual results, to create the proposed budget document. As part of the budget adoption process, the proposed budget is presented by the Clerk in its preliminary form first to the Board during the Board's monthly meeting, and then to the public at the budget adoption hearing.

The proposed budget documents presented to the Board for 2017-18 through 2020-21 did not include a schedule of fund balance as required. Each proposed budget document had the following three schedules:

- The prior year's budget and actual expenditures, the current year's budget and nine-month actual expenditures, and the budget officer's recommended amounts for the proposed budget year.
- A summary of the total estimated revenues for the prior fiscal year, the current fiscal year and each year's proposed appropriated fund balance, along with the proposed real property tax levy.
- The revenue estimate detail by account code.

The Village does not use encumbrances or have any established reserves. Therefore, a schedule with these estimated amounts was not needed. However, there was no estimate for fund balance at the end of the year and no breakdown of fund balance classifications. Instead, the schedules provided to the Board included only the budget officer's recommendation for appropriated surplus fund balance. The Clerk said that they had no knowledge of the requirement to present a fund balance schedule with the proposed budget.

Without the fund balance schedule, the Board and residents 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 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. Because the proposed budget does not include a fund balance schedule, the Village has accumulated a significant amount of fund balance, more than 100 percent of the next year's budget.

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.
2. 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.
3. Adopt a fund balance policy to define reasonable levels of fund balance to be maintained and include procedures on how to maintain it effectively.

The Clerk should:

4. Prepare and attach a complete fund balance schedule to the proposed budget and ensure 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 Village Officials

VILLAGE OF HEWLETT NECK INCORPORATED 1927



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

June 27, 2022

Via Email (muni-hauppauge@osc.ny.gov)
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Division of Local Government and School Accountability
NYS Office Building, Room 3A10
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Hauppauge, New York 11788-5533

Attention: Ira McCracken, Chief Examiner

Dear Mr. McCracken:

On behalf of the Village of Hewlett Neck (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 June 1, 2017 through May 31, 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 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 (June 1, 2022 through May 31, 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, as well as a storm drain project scheduled to be performed this budget year. 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 Board of Trustees 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 reduce surplus fund balance and 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 an adopted fund balance policy, and monies will be appropriately applied to planned capital projects, including the storm drain project.

3. The Board should adopt a fund balance policy to define reasonable levels of fund balance to be maintained and include procedures on how to maintain it effectively.

At its meeting on June 27, 2022, the Board adopted a fund balance policy. The policy was prepared by the Village Attorney, and reviewed by the Village Accountant, to provide for a policy that is in line with the Village's finances and its size.

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

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

All members of the Board have reviewed, and authorize this response.

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,

Ross Epstein
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 between June 1, 2017 and May 31, 2021 to determine whether the Board identified or discussed significant revenue and/or expenditure fluctuations.
- Interviewed the 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 for the Village's storm drainage project.
- 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, 2018-19, 2019-20 and 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. For 2020-21, we recalculated the reported unassigned fund balance by adding back the projected amount of unused appropriated fund balance based on the year end projections for the 2021-22 fiscal year. We then determined the recalculated amounts' percentages of the next 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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