

Town of Cobleskill

Budgeting

2023M-138 | March 2024

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Report Highlights

Town of Cobleskill

Audit Objective

Determine whether the Town of Cobleskill (Town) Town Board (Board) developed realistic budgets.

Key Findings

The Board did not develop realistic budgets.

Budgeted appropriations were overestimated in the town-wide (TW) general and highway funds, and estimated revenues were underestimated in the town-outside-village (TOV) highway fund resulting in operating surpluses totaling \$677,000:

- Actual expenditures were less than appropriations by an average of \$89,000 (15 percent) and \$196,000 (26 percent) in the TW general and highway funds, respectively.
- Actual revenues exceeded estimated revenues by an average of \$112,000 (90 percent) in the TOV highway fund.

As a result, much of the \$424,000 of fund balance that the Board planned to use to fund projected deficits was not used and unrestricted fund balances increased to levels between 100 and 179 percent of the 2023 appropriations.

The Town's preliminary budgets for the three fiscal years we examined did not include fund balance estimates with a breakdown by fund as required.

Key Recommendations

- Adopt budgets that contain realistic estimates based on available current data and historical trends.
- Include fund balance estimates in the Town's annual preliminary budgets.

Town officials agreed with our recommendations and indicated they will take corrective action.

Audit Period

January 1, 2022 – February 28, 2023. We extended our audit scope period to January 1, 2020 to review historical budget trends.

Background

The Town is located in Schoharie County and includes the Village of Cobleskill. The elected five-member Board, which is composed of the Town Supervisor (Supervisor) and four Board members, is responsible for the general management and control of the Town's financial affairs, which includes adopting the annual budget and establishing financial policies.

The Town has eight funds including the TW general and highway funds, and the TOV highway fund. The TW funds are funded primarily by real property taxes, while the TOV highway fund is funded primarily by sales tax and Consolidated Local and Highway Improvement Program (CHIPS) revenues.

Quick Facts

2023 Budgeted Appropriations

TW General Fund	\$741,000
TW Highway Fund	872,000
TOV Highway Fund	208,000
Total	\$1,821,000

Budgeting

What Is a Realistic Budget?

A realistic budget begins with sound estimates and well-supported budgetary assumptions. Budgets should be based on historical data or known trends, in which recurring revenues finance recurring expenditures. Budgetary estimates must be clear and realistic and the total financing sources from estimated revenues, appropriated fund balance and appropriated reserves must equal a town's estimated expenditures for the fiscal year.

A town may retain a reasonable portion of unrestricted fund balance as a financial cushion for unforeseen circumstances. A fund balance policy that addresses the appropriate level of fund balance to be maintained in each fund can provide a board with guidelines to use during the budget process. When a town board appropriates fund balance in the budget to finance operations, the board anticipates an operating deficit (expenditures exceeding revenues), which is equal to the amount of fund balance that is appropriated.

The preliminary budget must show, by fund, proposed appropriations and estimated revenues, a fund balance estimate and the amount of taxes to be levied. The fund balance estimate is required to provide a breakdown of amounts encumbered, amounts set aside for reserves, amounts appropriated to finance the next year's budget and the remaining estimated unappropriated, unrestricted fund balance for each fund.

The Board Did Not Develop Realistic Budgets

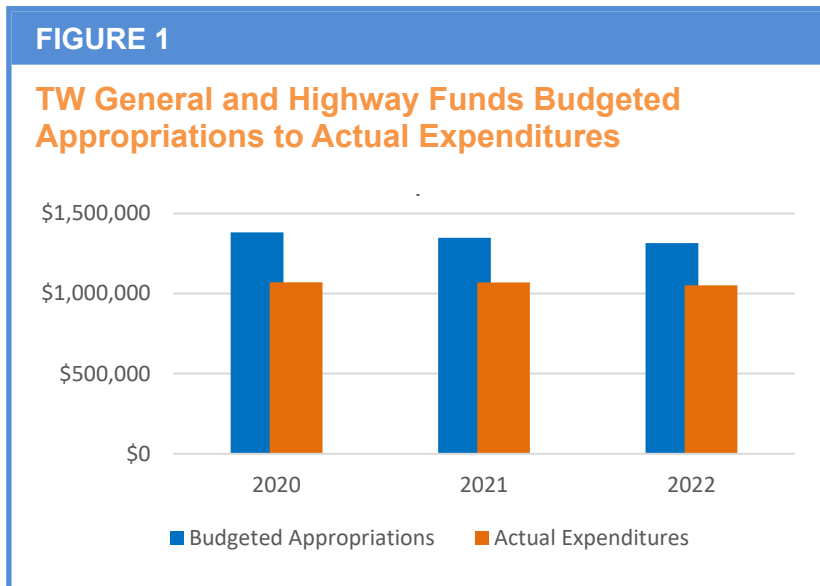
To determine whether realistic budgets were adopted, we compared the Town's 2020 – 2022 estimated revenues and appropriations with actual operating results for the three largest funds:

- TW general,
- TW highway, and
- TOV highway funds.

While appropriation variances in the TOV highway fund were reasonable, appropriations were overestimated in the TW general and highway funds. In addition, estimated revenues were generally reasonable in the TW general and highway funds, but were underestimated in the TOV highway fund.

Appropriations – Actual expenditures were less than appropriations¹ by an annual average of \$89,000 (15 percent) and \$196,000 (26 percent) in the TW general and highway funds, respectively (Figure 1).

¹ We did not include a one-time purchase of equipment totaling \$367,549 and a one-time repair of a salt shed totaling \$64,321 that occurred in 2022 because the appropriations were not included in the adopted budget.



Six expenditure accounts had overestimated appropriations totaling more than \$629,000 over the three-year period, as follows:

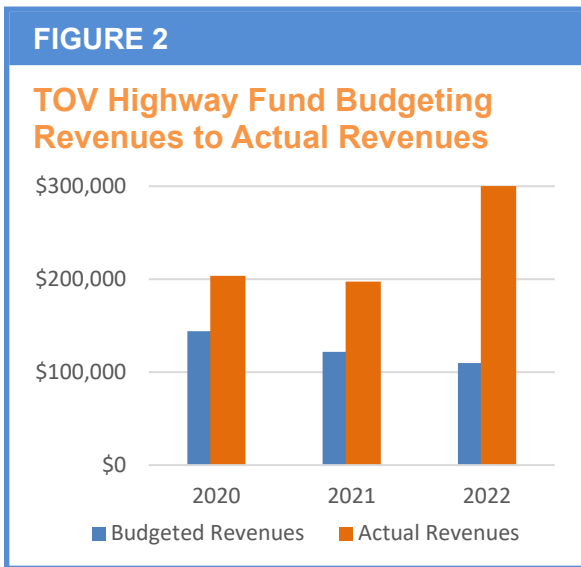
- Personal Services:
 - Personal services for street maintenance were overestimated by a total of \$96,000 (26 percent), with variances ranging from \$27,000 to \$41,000.
 - Personal services for snow removal were overestimated by a total of \$96,000 (22 percent), with variances ranging from \$25,000 to \$36,000.
- Contractual:
 - Snow removal contractual was overestimated by a total of \$162,000 (48 percent), with variances ranging from \$36,000 to \$76,000.
 - Street maintenance contractual was overestimated by a total of \$68,000 (45 percent), with variances ranging from \$12,000 to \$33,000.
- Benefits:
 - Health insurance for both funds combined was overestimated by a total of \$118,000 (39 percent), with variances ranging from \$18,000 to \$55,000.
 - Retirement contributions for both funds combined was overestimated by a total of \$89,000 (38 percent), with variances ranging from \$24,000 to \$35,000.

While the Town Clerk, Town Supervisor and a Board member attributed some budget variances to an unfilled position, the Board has overestimated the personal services line items for street maintenance and snow removal for at least the past five years. In addition, the Highway Superintendent, Town Clerk,

and Supervisor stated that the street maintenance contractual and snow removal contractual lines were overestimated so that they could purchase new equipment in the future. However, using this method causes a lack of transparency with the Town’s taxpayers. Instead, the Board and Town officials should plan for future equipment purchases by properly creating or funding appropriate reserves through the budget process.²

Estimated Revenues – Actual revenues exceeded estimated revenues by an average of \$112,000 (90 percent) in the TOV highway fund. Three revenue accounts had underestimated revenues totaling more than \$327,000 in at least two of the last three years (Figure 2), as follows:

- Sales tax exceeded estimates in two of the last three years (2021 and 2022) by a total of \$53,000 (131 percent), with variances ranging from \$20,000 to \$33,000.
- State aid CHIPS exceeded estimates for all three years by a total of \$204,000 (116 percent), with variances ranging from \$35,000 to \$111,000.
- State aid revenue sharing exceeded estimates in two of the last three years (2020 and 2022) by a total of \$70,000 (582 percent), with variances ranging from \$26,000 to \$44,000. The Board did not include an estimate for State aid revenue sharing in the 2022 adopted budget.

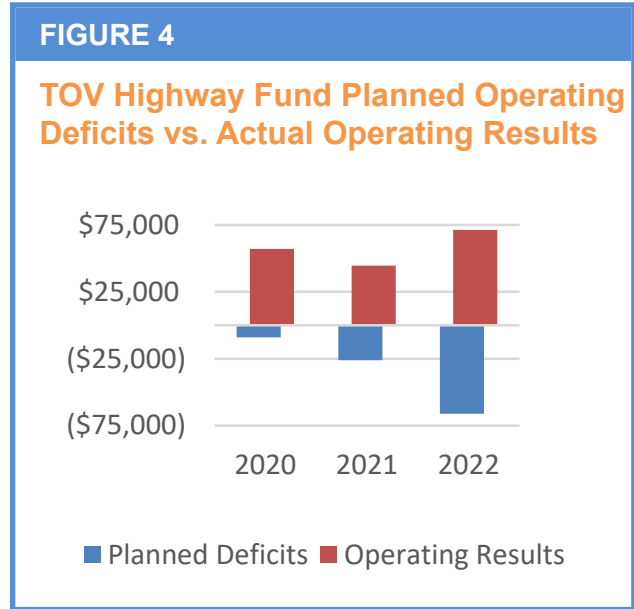
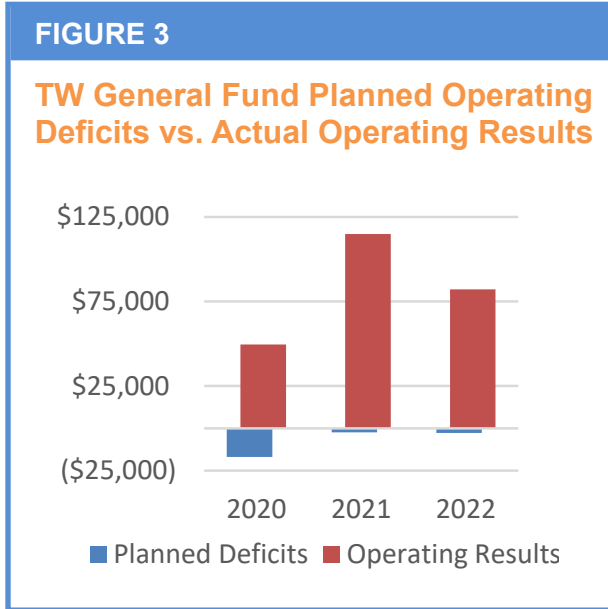


In relation to our discussion with officials, the Supervisor, a Board member, and the Town Clerk shared that they believe they can improve their revenue estimates by considering the available information on the Town’s historical revenue trends.

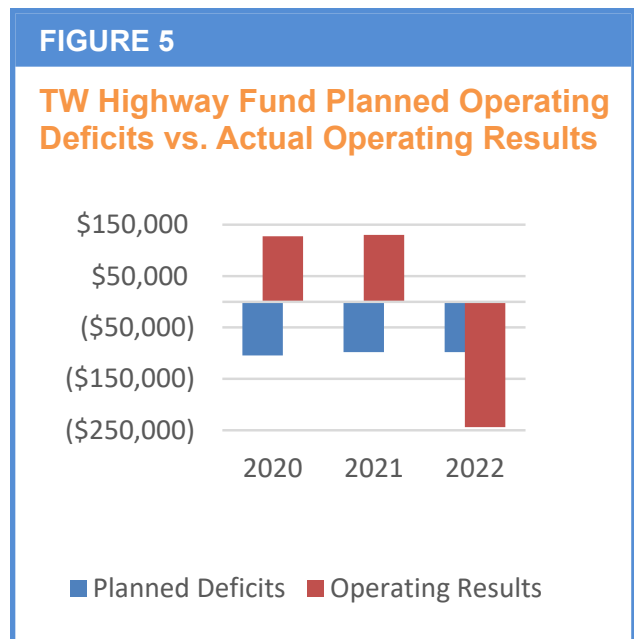
Appropriated Fund Balance – In the last three fiscal years, the Board adopted budgets that planned for the use of \$424,000 of fund balance from the three funds to fund budgeted operating deficits in those funds. However, much of the

² Refer to our publications Accounting and Reporting Manual available on our website at <https://www.osc.state.ny.us/files/local-government/publications/pdf/arm.pdf> and Reserve Funds available on our website at <https://www.osc.ny.gov/files/local-government/publications/pdf/reserve-funds.pdf>

fund balance was not used because the funds incurred operating surpluses instead totaling \$677,000³ (Figures 3, 4 and 5).



As a result, unrestricted fund balances (excluding appropriated fund balance)⁴ in these funds increased to levels between 100 and 179 percent of the 2023 appropriations, as of December 31, 2022 (Figure 6). Had the Board and officials used the Town’s historical operational result trends to develop budget estimates, officials may have adopted realistic budgets, not have raised taxes and increased transparency.

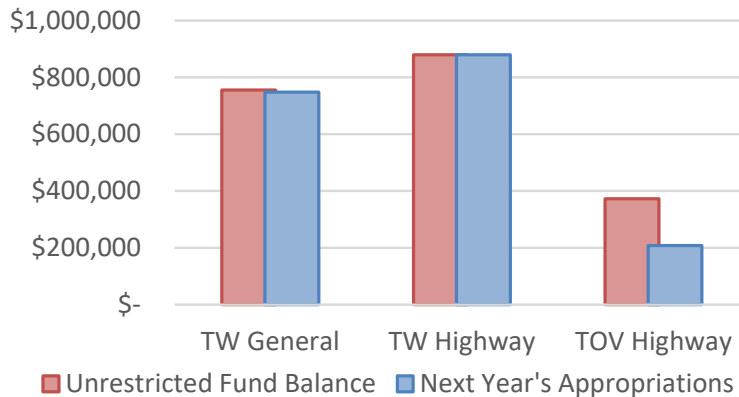


3 This number does not include an operating deficit of \$244,000 incurred in the TW highway fund in 2022, which was caused by unbudgeted equipment purchases. As a result, the Town used more fund balance than was appropriated in that fund for that year.

4 We excluded appropriated fund balance because it is not being retained and is already being used to reduce the tax levy for the next fiscal year.

FIGURE 6

2022 Unrestricted Fund Balance as a Percentage of the Next Year's Budget



The Preliminary Budget Did Not Include Fund Balance Estimates

The Town's preliminary budgets for the 2020 – 2023 fiscal years did not include fund balance estimates with a breakdown as required by New York State Town Law Section 107. The preliminary budget is required to include this information so that the budget is useful to officials in preparing and approving the budget, and transparent to the taxpayers. The Supervisor, a Board Member and the Town Clerk stated that they were not aware of the requirement that the Town's preliminary budget contain fund balance estimates.

Due to a lack of required information provided in the preliminary budget, officials and taxpayers did not have complete and sufficient financial information to effectively assess the fund balance levels and its effect on the overall budgets.

What Do We Recommend?

The Board should:

1. Adopt budgets that contain realistic estimates based on current data and historical trends, and appropriate fund balance only when needed to fund operations.
2. Develop and adopt a written fund balance policy.
3. Plan for future equipment purchases by properly creating or funding appropriate reserves through the budget process.
4. Include fund balance estimates in the Town's annual preliminary budgets.

Appendix A: Response From Town Officials



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518-221-5332

Office of Supervisor
Werner Hampel

February 15, 2024

Office of the New York State Comptroller
Binghamton Regional Office
Ann C. Singer
Chief of Municipal Audits
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417

RE: Town of Cobleskill Budgeting Report of Examination 2023M-138

Dear Ms. Singer:

I thank [REDACTED] for their time and expertise in reviewing our budget and process. During our meeting both were helpful with suggestions on the recommendations.

It is the intent that the Town of Cobleskill will adopt budgets containing realistic estimates based on current data and using historical trends, and fund balance only when needed to fund operations. A line in future budgets will be created to fund future equipment purchases for more transparency and to adhere to the budgeting on current data and historical trends. The 2024 adopted budget does reflect a change in the budgeting process from prior budgets.

The fund balance estimates will be reflected in the Town's future annual preliminary budgets.

The Town of Cobleskill will develop and adopt a written fund balance policy.

The 2025 budget and future budgets will reflect the recommendations of said examination 2023M-138 and by 2026 or sooner the Fund Balance Policy will be adopted.

Sincerely,

Werner T. Hampel
Cobleskill Town Supervisor

The Town of Cobleskill is an equal opportunity provider, and employer. To file a complaint of discrimination, write: USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed Town officials and reviewed Board meeting minutes to gain an understanding of their budgeting development and monitoring process.
- For fiscal years 2020 through 2022, we compared budget estimates to actual results to determine whether budgets were reasonable. We reviewed variances in three funds, representing 86 percent of all funds' 2022 budgeted appropriations, which we selected based on significance of variances between budget estimates and actual results. We reviewed these funds to determine which individual revenue and appropriation estimates had the largest variances. We then interviewed officials to determine the cause of significant or unusual variances.
- We reviewed the Town's budget estimates for 2018 and 2019 to determine trends for six selected expenditure accounts: personal services for street maintenance; personal services for snow removal; street maintenance contractual; snow removal contractual; health insurance; and retirement contributions. We selected these accounts based on budget variances of 5 percent or more identified in the 2020 through 2022 fiscal years.
- For the fiscal years 2020 through 2022, we reviewed the Town's Annual Update Document (AUD) (i.e., annual financial report) to determine whether the Town's three main funds experienced operating surpluses or deficits, and whether the appropriated fund balance was used.
- We reviewed the 2023 budget estimates to determine whether the Town's budgeting practices were consistent.
- We reviewed the Town's 2020 through 2023 preliminary budgets to determine whether fund balance estimates were included in the preliminary budget.

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 Town Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

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

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/fiscal-monitoring

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/resources/planning-resources

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

www.osc.ny.gov/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.ny.gov/local-government/required-reporting

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

<https://www.osc.ny.gov/local-government>

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

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