



Town of Philipstown

Financial Management

2024M-100 | May 2025

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Report Highlights

Town of Philipstown

Audit Objective

Determine whether the Town of Philipstown (Town) Town Board (Board) properly managed financial operations.

Key Findings

The Board did not properly manage the Town’s financial operations and used the Town’s general fund to pay for the Garrison Landing Water District’s (GLWD’s) operation and maintenance (O&M) costs. As a result, during the audit period, the Town’s residents paid \$2.4 million of the GLWD’s costs that only benefited taxpayers within the water district and resulted in the decline of the general fund balance from \$1 million to \$53,137. Specifically, the Board did not:

- Appropriately budget for GLWD operations. For example, although the Town had a GLWD water fund and budgeted approximately \$20,000 for debt service in the fund, the Board did not budget for GLWD appropriations in the general fund each year where annual GLWD expenditures were funded and increased from \$85,436 to \$975,475 over the six-year audit period.
- Adopt a transparent budget that clearly communicates the costs associated with GLWD operations or the associated funding sources to taxpayers.
- Develop, adopt and periodically update a written multiyear financial plan to help guide the budget development process or establish funds to help finance future expenditures.

Key Recommendations

- Develop and adopt budgets for each fund with sufficient estimates of revenues and expenditures based on historical trends and other known factors.
- Develop and adopt a multiyear financial plan.

Town officials generally agreed with our findings and recommendations and indicated they plan to initiate corrective action. Appendix C includes our comments on issues raised in the Town’s response letter.

Audit Period

January 1, 2018 – December 31, 2023

Background

The Town used general tax revenue to fund the O&M costs of the GLWD. We reviewed the Town’s financial operations as a whole, and the GLWD was the most significant factor of the Town’s financial decline. Our report focuses on the GLWD to provide the most useful information to Town residents.

The Town, located in Putnam County (County), is governed by an elected five-member Board, composed of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management of the Town’s operations and finances, and making financial decisions that are in the best interest of the Town, its taxpayers and residents. This includes setting long-term financial priorities and goals.

The Town Comptroller (Comptroller) serves as the chief fiscal officer and is responsible for the Town’s financial operations. The Town created the GLWD in 1998 and acquired the community water system operated by the Garrison Station Plaza Water Company that served the area of the GLWD. For additional background information, refer to Appendix A.

Quick Facts

2023 General Fund GLWD	
Budgeted Appropriations	\$0
Actual Expenditures	\$975,475

Financial Management

How Should a Board Effectively Manage Financial Operations?

A town board should effectively manage financial operations by making financial decisions that are in the best interest of the town and its taxpayers. To properly manage a town's finances, a town board should adopt reasonably estimated budgets based on historical data or known trends, which provide sufficient recurring revenues to finance recurring expenditures.

Once the budget has been adopted, there must be a systematic accounting process in place to determine that sufficient revenues are realized and money is available for expenditures for each purpose enumerated in the budget. Past trends can provide useful data in determining the revenue amount. Changes in fee schedules should also be considered, particularly if the services are intended to be self-sustaining.

A town board should ensure that the town annually has a "reasonable amount" of unrestricted fund balance and monitor the balance on an ongoing basis. The town's budget should show, itemized by fund, each proposed appropriation and estimated revenue. If revenues are insufficient to fund expenditures, an operating deficit will occur.

Additionally, a multiyear financial plan should be developed, as it can be a vital tool for local officials, especially those struggling with difficult financial conditions. It allows decision-makers to set long-term priorities and work toward fiscal goals. Multiyear financial plans should include, but not be limited to, revenue and expenditure projections, annual deficits/surpluses, reserves/fund balances, and fiscal improvement plans. Without efficient planning, local governments often end up relying on fund balance or using one-time revenues to remain financially stable.

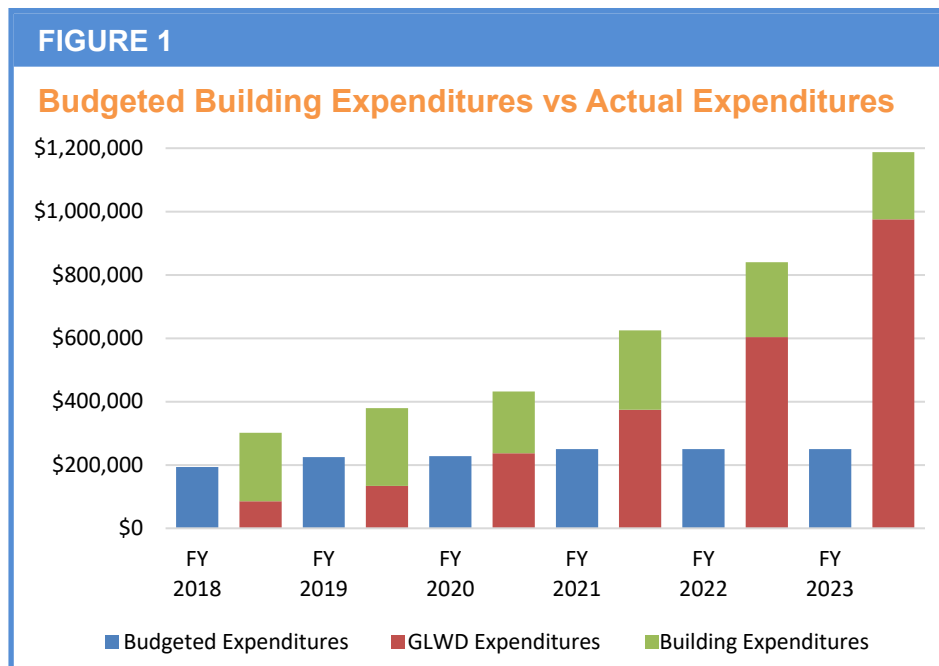
The Board Did Not Appropriately Budget for GLWD Operations

The Board and Town officials adopted budgets that did not include sufficient revenues and appropriations to fund the GLWD's O&M expenditures. As a result of the Board's budgeting practices, the Town's general fund balance decreased by over \$1 million, or 95 percent, because the Board used funds from the Town's general fund balance to cover the unbudgeted GLWD expenditures that totaled \$2.4 million during the audit period.

Our review of the Town's last six annual budgets (fiscal years 2018 through 2023) determined that although the Town had a GLWD water fund, this fund was not used for GLWD operations. Instead, officials used the general fund's building budget line¹ to record operational expenditures for both buildings and the GLWD. Over the six-year period, GLWD expenditures increased from \$85,436 to \$975,475 and averaged approximately \$401,715 each year. However, officials did not appropriate funds for GLWD O&M. As a result, officials continuously omitted sufficient budget appropriations to cover GLWD's operational costs. Figure 1 compares the amount budgeted to actual expenditures.

¹ The Town's expenditures in the building budget line included cable, telephone and maintenance supplies for the Town's buildings during our audit period.

According to the Supervisor, Town officials have been so busy with GLWD water issues that all focus and resources were on getting the issues resolved and they never budgeted for the increased expenditures because they thought the repairs to the GLWD would be rectified. However, Town officials should have included appropriations for the GLWD when constructing the budget as they knew funds were needed for O&M.



The Comptroller stated that although the general fund was used to pay for GLWD expenditures, the Town was planning to reimburse the general fund with ARPA funds in the future. However, by excluding appropriations to cover the O&M costs in the budget and not accounting for them in the proper fund, Town officials limited transparency of GLWD operational costs.

Furthermore, we reviewed the revenues collected from GLWD residents from fiscal year 2018 through 2023 and determined that the users were collectively charged approximately \$20,000 annually, or \$120,000, during the audit period. However, GLWD expenditures, inclusive of debt payments, totaled \$2.5 million, a \$2.4 million shortage. As a result of using the general fund to cover this shortage, all Town residents paid the majority of GLWD operational costs but only taxpayers within the GLWD district benefitted from GLWD operations. Had Town officials properly budgeted for GLWD operations, the Town's general fund balance would not have been reduced to \$53,137 as of December 31, 2023.

The Board Did Not Develop and Adopt a Written Multiyear Financial Plan

The Board did not develop and adopt a written multiyear financial plan. Between 2018 and 2023, the Town used general fund balance to fund the GLWD expenditures. As of December 31, 2023, the problems were unresolved and the Town's general fund balance was almost exhausted. A multiyear financial plan may have allowed Town officials to visualize the impact of the continued expenditures. Furthermore, a multiyear financial plan would be a useful tool to help guide the Board and Town officials to actively plan out where funds would come from to pay the GLWD's future expenditures and plan for future repairs. The Supervisor stated that they are aware the Town should have a multiyear financial plan, but their focus has been on obtaining a reliable water source for the GLWD.

Without an adopted multiyear plan, Town officials had no formal guidance on how to address the funding of projects or achieve long-term financial objectives.

What Do We Recommend?

The Board and Town officials should:

1. Develop and adopt budgets for each fund with sufficient estimates of revenues and expenditures based on historical trends and other known factors.
2. Develop, adopt and periodically update a written multiyear financial plan to be used in conjunction with the annual budget process.
3. Consult with the Town's attorney to determine permissible uses of Town-wide funds relative to GLWD expenditures, and to determine and prescribe appropriate actions to achieve the proper governance of the GLWD to ensure that it is fully funded through an ad valorem levy or benefit assessment, and/or user fees, imposed on residents within the GLWD.

The Comptroller should:

4. Ensure expenditures are recorded to the appropriate fund.

Appendix A: Garrison Landing Water District

The Town created the GLWD in 1998 and acquired the community water system operated by the Garrison Station Plaza Water Company that served the area of the GLWD. The community water system had issues with corrosion, resulting in inadequate water delivery to the users. In 1999, when Town officials began planned improvements to switch the GLWD's water supply from the existing water supply and distribution system to a new well, the water meters failed.

At the inception of the GLWD, users were charged approximately \$18,000 annually based on their respective usage, which included O&M costs and costs for debt service. Typically, costs for public improvements are attributable to a water district serving those users, and the GLWD was established on the presumption that all O&M costs would be paid from water fees (based on usage) charged to the GLWD's users. But according to Town officials, because the Town lacked the resources to replace or repair the water meters, the Town stopped charging users within the GLWD for water usage and O&M costs. However, GLWD users continued to pay fees to the Town to pay the annual debt service of approximately \$20,000 to cover the debt the Town obtained in 1998 to cover the cost of acquiring the existing water supply and distribution system and the construction of improvements to such system.

Town officials explained that throughout the years and audit period, the Town tried to implement different solutions to remedy the water supply issues but have not been able to resolve the problems due to the unexpected failure of certain wells. Additionally, Town officials planned to use American Rescue Plan Act (ARPA) funds to replenish a portion of the general town revenues spent on GLWD improvements. However, because the GLWD improvements did not meet ARPA requirements, officials started the process of entering an intermunicipal agreement with the County to recover a portion of the revenues.

Appendix B: Response From Town Officials



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JOHN VAN TASSEL, SUPERVISOR

TARA K. PERCACCIOLO
TOWN CLERK AND TAX COLLECTOR

ROBERT FLAHERTY, COUNCILMAN
JUDITH FARRELL, COUNCILWOMAN
JASON ANGELL, COUNCILMAN
MEGAN COTTER, COUNCILWOMAN

February 18, 2025

[REDACTED]
Newburgh Regional Office
33 Airport Center Drive, Suite 102
New Windsor, NY 12553

We would like to take the opportunity to thank the Office of the State Comptroller ("OSC") for their review of financial management of the Town of Philipstown (the "Town"). This letter is the Town's official response to the OSC's preliminary draft findings audit report covering the audit period January 1, 2018 through December 31, 2023.

The Town appreciates the OSC's findings and takes all recommendations seriously. Please find our responses to the findings from the draft audit report below.

Draft audit report finding: "The Board did not properly manage the Town's financial operations and used the Town's general fund to pay for the Garrison Landing Water District (the "District") operations and maintenance costs."

Response: Historically, the District's only ongoing costs were those associated with servicing outstanding debt. However, due to an unexpected catastrophic failure of certain wells, the Town was faced with multiple emergency situations of providing potable water to residents, as it is required to do by New York State law. These emergency situations required town officials to respond swiftly and address the issue as quickly as possible. Unfortunately, after hiring experts to resolve the initial issue, additional unexpected failures occurred. Funding for repairs was provided by the general fund given the District includes only nine properties leaving the Town with no ability to fund repairs through the District without potentially causing financial hardship to the taxpayers. The Town believes it reasonably managed financial operations based on the facts and circumstances at the time of each occurrence.

See
Note 1
Page 8

See
Note 2
Page 8

Draft audit report finding: "Appropriately budget for GLWD operations. For example, although the Town had a GLWD water fund and budgeted approximately \$20,000 for debt service in the fund, the Board did not budget for GLWD appropriations in the general fund each year where annual GLWD expenditures were funded and increased from \$85,436 to \$975,475 over the six-year audit period."

Response: The Town did not specifically budget for costs related to repairs in the District based on the fact the wells were operating properly leading the Town to conclude no further repairs were needed. Unfortunately, additional unexpected failures occurred leading to further unbudgeted emergency expenditures. Going forward, the Town will consider potential situations that may result in unexpected expenditures and include in the annual budget depending on the facts and circumstances available.

See Note 3 Page 8

Draft audit report finding: “Adopt a transparent budget that clearly communicates the costs associated with GLWD operations or the associated funding sources to taxpayers.”

Response: The Town will consider adding detailed line items to the budgetary accounts reflecting potential material costs to provide a more clear understanding of expenditures incurred.

Draft audit report finding: “Develop, adopt and periodically update a comprehensive written multiyear financial plan to help guide the budget development process or establish funds to help finance future expenditures.”

Response: The Town will research, discuss and evaluate implementing a multiyear financial plan to assist in providing a long-term financial outlook for potential expenditures.

The draft audit findings and recommendations of the OSC provide valuable insight and will aid the Town in improving its financial management operations and long-term financial outlook.

Sincerely

John Van Tassel, Supervisor
Town of Philipstown

Appendix C: OSC Comments on the Town's Response

Note 1

At the inception of the GLWD, users were charged approximately \$18,000 annually based on their respective usage, which included O&M costs and costs for debt service. See Appendix A for additional information.

Note 2

With the exception of certain limited instances, which do not appear to be applicable to the Town, Town Law does not provide for a town to finance the cost of improvements for a special district as a general town expense payable out of the general fund. In general, a town may not adopt a local law or rely on the Municipal Home Rule Law to provide for the use or transfer of general fund monies to finance special district improvements (see OSC Opinion No. 2008-4). In very limited circumstances, we have opined that a town may adopt a local law which empowers it to repair a private water or sewer system that threatens or endangers the public health. However, even there, we concluded that the cost of the repairs would have to be incurred by the owner, such as being charged against the property as a tax lien (see OSC Opinion No. 1982-216). Although a town board is responsible for the construction and maintenance of improvements in a district, town general funds may not be expended for those improvements or their maintenance. Once a district has been established, the cost of the improvements in the district, as well as the costs of operation and maintenance, must be raised through the imposition of user charges or assessed on the properties in the district (see OSC Opinion No. 1995-17).

Note 3

Town officials adopted budgets that did not include sufficient revenues and appropriations to fund GLWD's O&M expenditures despite ongoing well failures. Over the six-year audit period, GLWD's unbudgeted expenditures increased from \$85,436 to \$975,475.

Appendix D: 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, including Board members, the Supervisor and the Comptroller, and reviewed policies, Board meeting minutes, adopted budgets and financial records and reports to gain an understanding of the Town's financial operations and determine if the Town had a multiyear financial plan.
- We reviewed vendor reports and used our professional judgement to identify all vendors with expenditures related to the GLWD. For any vendor identified as having GLWD expenditures, we requested payments made from fiscal year 2018 through 2023. We reviewed vouchers to confirm that the payments were GLWD expenditures.
- We recalculated fund balance by adding back all GLWD-related expenditures to determine what the general fund balance would be if Town officials did not use general fund balance to pay for GLWD expenditures.
- We reviewed monthly Board meeting packets to determine what financial information the Supervisor provided to the Board.
- We reviewed Board minutes for the audit period and document communication related to the GLWD.
- For 2018 through 2023, we compared budget estimates to actual results to determine whether budgets were reasonable. We reviewed variances in the general fund to determine which individual revenue and appropriation estimates had the largest variances. We interviewed officials to determine the cause of significant or unusual variances.
- We reviewed the general fund balance appropriated for 2018 through 2023, determined whether the Town had an operating surplus or deficit and calculated how much appropriated fund balance was used.
- We reviewed budget requests used by the Supervisor, Comptroller and department heads to determine whether budgeted amounts exceeded the departmental requests. We checked for differences between budget request and adopted budget for a sample of account codes in the general fund that have actual results that are less than budget to determine whether the differences were reasonable.
- We reviewed the Town's Annual Financial Report for each of the last six years to determine whether they were filed timely.
- We reviewed GLWD documents, maps, resident bills and outstanding debt to gain an understanding of the water district.
- We reviewed GLWD budget and actual expenditures. We also reviewed Town bank statements and debt documents for 2018 through 2023 to determine the total debt payments for the GLWD.

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's office.

Appendix E: 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

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Contact

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