



Plattekill Library Budgeting Practices

Report of Examination

Period Covered:

January 1, 2016 – February 16, 2017

2017M-95



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2017

Dear Library Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Library Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Plattekill Library, entitled Budgeting Practices. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendation are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Plattekill Library (Library) is a public library located in the Town of Plattekill in Ulster County, and provides library services to approximately 10,000 residents. These services include book lending, and children's and adult education programs. The Library is part of the Mid-Hudson Library System and is governed by an elected seven-member Board of Trustees (Board), which is responsible for the general oversight of the Library's financial affairs, adoption of the annual budget, and the safeguarding of Library resources. Day-to-day Library administration is carried out by the Library Director (Director), who is appointed by the Board and serves as the chief executive officer. The Director's responsibilities include assisting the Board in preparing the budget.

The Library's 2017 adopted budget was \$446,257, funded primarily by a real property tax levy approved by Plattekill Library District residents,¹ along with State aid, and minimal revenues from fines and fees collected on overdue library materials. The Board has ultimate control over Library funds and is directly responsible for overseeing the Director's work related to the budget.

Objective

The objective of our audit was to determine whether the Library's revenue and expenditure projections were reasonable. Our audit addressed the following related question:

- Were the revenue and expenditure projections in the budget reasonable?

Scope and Methodology

We examined the Library's budgeting practices for the period January 1, 2016 through February 16, 2017. We extended our scope back to 2013 for trend analysis.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report. 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.

¹ District residents must approve the budgets, which include any tax levy increases.

**Comments of Library
Officials and Corrective
Action**

The results of our audit and recommendation have been discussed with Library officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Library officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Library's response letter.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendation in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board of Trustees to make this plan available for public review.

Budgeting Practices

The Board is responsible for making sound financial decisions in the best interests of the Library and the residents it serves, who fund its programs and operations. Sound budgeting practices based on accurate budget estimates help ensure that funding will be available to sustain operations, and to address unexpected occurrences and future expenditures. Accurate budget estimates also help ensure the real property tax levy is not greater than necessary.

The Board has consistently underestimated revenues and overestimated expenditures in its budgets over the past four years, which contributed to an accumulated surplus fund balance of approximately \$360,000, about 81 percent of its annual budget. For the same period, the Library also increased the real property tax levy by approximately \$26,000. As a result, the Library levied and collected more taxes than necessary.

Revenue and Expenditure Projections

The Board is responsible for estimating revenues, expenditures and for determining the tax levy. The Board must directly oversee the Director's creation of the budgets to ensure that the process is adequate to develop realistic budgets and retain fund balance necessary to meet financial goals. Revenue and expenditure estimates should be based on prior years' operating results, past expenditure trends, anticipated future needs and available information related to projected changes. Unrealistic estimates could misinform residents about the Library's operating needs and can significantly impact the Library's year-end accumulated fund balance and financial condition.

The Director creates the budget by assessing the Library's needs for the year, focusing on the major categories in the budget. The budget is reviewed by the Board's Budget and Finance Committee² and a percentage increase recommendation is presented to the Board for final approval. Some Board members have expressed concerns to us relating to the budget process and the yearly percentage increases.

Revenues — We compared budgeted revenues to actual revenues from 2013 through 2016 and found that the Board underestimated revenues by a total of \$113,777 for these four years. Underestimated revenue ranged from \$10,711 to \$46,019 or from 2.6 percent to 10.5 percent.

² The Budget and Finance Committee consists of five Board members.

| Figure 1: Budget-to-Actual Revenues in Total | | | | |
|-----------------------------------------------------|--------------------|--------------------|------------------|-------------------|
| | Budgeted | Actual | Variance | Percentage |
| 2013 | \$424,111 | \$413,400 | \$10,711 | 2.6% |
| 2014 | \$441,065 | \$429,936 | \$11,129 | 2.6% |
| 2015 | \$481,228 | \$435,310 | \$45,918 | 10.5% |
| 2016 | \$485,682 | \$439,663 | \$46,019 | 10.5% |
| Totals | \$1,832,086 | \$1,718,309 | \$113,777 | 6.62% |

Actual revenues were greater than budgeted revenues because the Board did not budget for any revenues other than the tax levy. For example, although each year the Library received revenues for State aid and fines and fees, these revenues were not included in the budgets.

Expenditures — We also compared appropriations to actual expenditures and found that the Board overestimated expenditures for five line items by a total of \$398,908 during the four year period. Of the total, library materials–other and library operations were overestimated in each of the four years for a combined total over \$300,000.

Figure 2: Overestimated Appropriations

| Library Materials — Other | | | |
|---------------------------|------------------|------------------|------------------|
| | Budgeted | Actual | Variance |
| 2013 | \$44,000 | \$0 | \$44,000 |
| 2014 | \$44,000 | \$0 | \$44,000 |
| 2015 | \$41,000 | \$0 | \$41,000 |
| 2016 | \$30,000 | \$0 | \$30,000 |
| Totals | \$159,000 | \$0 | \$159,000 |
| Library Operations | | | |
| | Budgeted | Actual | Variance |
| 2013 | \$30,400 | \$85 | \$30,315 |
| 2014 | \$30,400 | \$814 | \$29,586 |
| 2015 | \$33,400 | \$276 | \$33,124 |
| 2016 | \$51,063 | \$0 | \$51,063 |
| Totals | \$145,263 | \$1,175 | \$144,088 |
| Staff Payroll | | | |
| | Budgeted | Actual | Variance |
| 2013 | \$236,000 | \$174,329 | \$61,671 |
| 2014 | \$173,715 | \$184,678 | (\$10,963) |
| 2015 | \$188,680 | \$195,219 | (\$6,539) |
| 2016 | \$198,780 | \$192,205 | \$6,575 |
| Totals | \$797,174 | \$746,430 | \$50,744 |
| Building — Other | | | |
| | Budget | Actual | Excess |
| 2013 | \$12,000 | \$0 | \$12,000 |
| 2014 | \$12,000 | \$0 | \$12,000 |
| 2015 | \$12,136 | \$0 | \$12,136 |
| 2016 | \$0 | \$0 | \$0 |
| Totals | \$36,136 | \$0 | \$36,136 |
| New York State Retirement | | | |
| | Budgeted | Actual | Variance |
| 2013 | \$40,000 | \$44,466 | (\$4,466) |
| 2014 | \$49,000 | \$41,400 | \$7,600 |
| 2015 | \$40,000 | \$43,736 | (\$3,736) |
| 2016 | \$50,000 | \$40,458 | \$9,542 |
| Totals | \$179,000 | \$170,060 | \$8,940 |

Although Library officials knew that these expenditures had been overestimated in previous budgets, they continued to appropriate excessive amounts.

The Board has generally developed budgets based on the prior year's budget amounts, rather than on past operating results or expenditure trends. As a result, the Board has consistently adopted budgets that underestimated revenues and overestimated expenses, resulting in the Library's fund balance increasing.

Fund Balance

Fund Balance is the difference between revenues and expenditures accumulated over a time. When a local government ends its fiscal year with more money than budgeted, its fund balances increases. A high fund balance can indicate that the level of taxation is too high and probably should be reduced.

The Board's underestimation of revenues and overestimation of expenditures resulted in the accumulation of fund balance totaling \$359,405 as of December 31, 2016, about 81 percent of the Library's budget.

Figure 3: General Fund Operating Results and Fund Balance

| | 2013 | 2014 | 2015 | 2016 |
|-----------------------------------|-----------|-----------|-----------|-----------|
| Beginning Fund Balance | \$223,301 | \$266,702 | \$306,836 | \$351,369 |
| Prior Period Adjustment | \$5,416 | \$0 | \$0 | \$0 |
| Revenues | \$424,117 | \$441,026 | \$481,234 | \$485,007 |
| Expenditures | \$386,132 | \$400,892 | \$436,701 | \$476,971 |
| Operating Surplus | \$37,985 | \$40,134 | \$44,533 | \$8,036 |
| Year End Accumulated Fund Balance | \$266,702 | \$306,836 | \$351,369 | \$359,405 |

The fund balance increased year over year by \$37,985 in 2013, \$40,134 in 2014, \$44,533 in 2015 and \$8,036 in 2016, or \$130,688 over the four years due to yearly surpluses.

The Board created a contingency fund policy and a capital reserve fund policy in January 2014. The contingency fund policy was created to help the Library prepare for financial emergencies and ensure the continuity of financial operations. The policy allows the Library to maintain restricted net assets of no less than the estimated cost of four months of operation of the most current operating budget. The fund is maintained as part of the general fund balance. Withdrawals from the contingency fund may be made during a Board declared emergency or for transfer to the capital reserve fund. Although the creation of a contingency fund could be useful and prudent, moneys in a contingency fund are not legally restricted in the same way as moneys in the capital reserve fund are. Therefore, they are still considered to be part of the general fund balance and available for operations.

The Board created a capital reserve fund, made up of transfers made by the majority vote of the Board, in 2014 to set aside funds for a new library building and related expenditures. As of January 2017, the capital reserve fund had a balance of \$206,844, which was funded by budget surpluses.

For the same period, the Library also increased the real property tax levy by \$26,263. As a result, the Library levied and collected more taxes than necessary.

Recommendations

The Board should:

1. Develop and adopt budgets that include realistic estimates for revenues and expenditures based on all information available at the time.
2. Use surplus funds as a financing source for:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing property taxes.

APPENDIX A
RESPONSE FROM LIBRARY OFFICIALS

The Library officials' response to this audit can be found on the following pages.



Plattekill Public Library

2047 Rt. 32 Modena, New York, 12548
Serving Clintondale, Modena, and Plattekill since 1973

August 11, 2017

Via 1st Class Mail and E-mail (.pdf)

Ms. Tenneh Blamah, Chief Examiner
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, New York 12553

*Re: Response to Draft Report of Examination and Corrective Action Plan
2017M-95 – Period Covered: January 1, 2016 – February 16, 2017*

Dear Ms. Blamah:

On behalf of the Plattekill Library (the “Library”), please accept this letter as the Library’s Board of Trustees’ formal response to, and corrective action plan for, the findings and recommendation contained in your office’s draft Report of Examination (“Draft Report”), conveyed to us by e-mail.

First and foremost, we wanted to take this opportunity to thank you and your staff for the diligence and professionalism exhibited during the course of the examination. Specifically, we extend our gratitude to your on-site examiners who approached the process with thoroughness, but were willing to work cooperatively with our employees to minimize disruptions to our day-to-day operations. We also appreciate your office’s willingness to discuss the details of the draft findings during the exit interview held on August 2, 2017.

As was discussed at the exit interview, the Board of Trustees and the Library’s Director are in complete agreement that sound budgeting is a central goal for the Library to help us assure that the Library’s community-based resources are protected and preserved. Moreover, the Board of Trustees, the Director, and the Library’s Treasurer have thoroughly reviewed the Draft Report and we agree with and accept many of the findings and recommendation contained therein. We are committed to refining our practices and procedures to bolster our budgeting process. However, as set forth below, we do not agree with some of the characterizations in the report that suggest that our budgeting process is flawed. While we acknowledge that some of our processes may not be consistent with the practices that OSC staff described for us, our Board is actively involved in the management and oversight of the Library’s financial operations, and has a clearly planned and proper use for the Library’s fund balance. As such, we regard certain portions of the report to be unduly critical of our oversight and are disappointed that the draft report did not more favorably reflect the Library’s explanations for the variances in revenues and expenditures.

See
Note 1
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INTRODUCTION

We have no substantive comments on the Introduction except to note that the Library is located in the Town of Plattekill, not the “Town of Modena” as referenced in the Background section.¹ Also, we believe that the description of the audit and its scope and objectives, contained in the Appendix on “Audit Methodology and Standards” (Appendix B in the Draft Report) is a more detailed and fully-informative statement of the objectives of the audit and the scope of examination. We believe the language in Appendix B conveys a fuller sense of the thoroughness and expansiveness with which your staff approached the examination.

See
Note 2
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We acknowledge the Board of Trustees’ obligation to draft and implement a corrective action plan in accordance with your final report and we hope that our efforts, as itemized in this response, will be deemed to meet this obligation. We intend that this response will be treated as our Corrective Action Plan and if further action is needed, please let us know.

BUDGETING PRACTICES

The Draft Report’s central finding is that the Board “has consistently underestimated revenues and overestimated expenditures in its budgets over the past four years.” We believe that this statement overstates the reality of the variances in the Library’s budgeting, and ignores several key factors that explains some of the information upon which the Draft Report bases its concerns.

See
Note 3
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Revenues

Turning to Figure 1, although an average revenue variance of 6.62% overall is highlighted, we note that fiscal years 2013 and 2014 show budget to actual variances of only 2.6% each year. We view this variance as non-material, particularly because the variances were primarily due to unanticipated and hard to forecast revenues from bank interest, library fines, and state aid. As we explained during the course of the examination process, Library staff has erred toward not budgeting revenues in these categories due to their historically-low magnitude and the lack of a clear methodology for developing a sound estimate.

See
Note 3
Page 17

The budget to actual variance for the 2015 year was 10.5% or \$45,918. The reason for the increase in actual over budget amount was due to the receipt of grant funds that were applied for through Senator Larkin and the First Book Grant. The Library chose not to budget for these grants during the development of the budget because we were not confident that the grants would be received in the relevant period. Notably, we were not notified that the Library was approved for the grants until they were received during the 2015 year. Moreover, the book grant was received in the form of free books that were distributed to the community. A journal entry was made for financial reporting purposes to record the retail cost of the books (\$25,061) as revenue, and a corresponding entry was made to record the disbursement as an expense. No cash was received from this grant and, therefore, the non-cash grant was never available to fund operating

See
Notes 4 & 5
Page 17

¹ Modena is an unincorporated hamlet within the Town of Plattekill.

expenses. As such, we think a more accurate portrayal of the 2015 revenue variance would be as follows:

$$\begin{aligned} & \$45,918 \text{ OSC listed variance in figure 1 (underage)} \\ & - 10,000 \text{ Larkin Grant} \\ & - \underline{25,061 \text{ First Book grant received in the form of books}} \\ = & \quad \mathbf{\$ 10,857.00 \text{ actual variance from our revenue budget (or 2.6\%)}} \end{aligned}$$

Next, according to the Draft Report, the budget to actual variance for the 2016 year was also 10.5% or \$46,019. In 2016, we also received unanticipated, additional grants from the Mid-Hudson Library System for teen programs, early literacy, and outreach to special populations, and again received the Larkin grant, and the First Book Grant. The retail cost of the grant books for 2016 was \$19,631. In light of the receipt of these unexpected grant funds, we believe a more accurate portrayal of our 2016 revenue variance would be as follows:

See
Note 4
Page 17

$$\begin{aligned} & \$46,019 \text{ listed revenue variance (underage)} \\ & - 10,000 \text{ Larkin Grant} \\ & - 19,631 \text{ First Book grant received in the form of books} \\ & - 500 \text{ Stewarts grants} \\ & - \underline{1,363 \text{ Mid-Hudson Library system mini-grants}} \\ = & \quad \mathbf{\$ 14,525 \text{ (or 3.0\%) actual variance from our revenue budget.}} \end{aligned}$$

Again, we maintain that revenue variances of only 2.6% and 3% are non-material.

Using these revised figures, we believe a more accurate representation of our budget to actual revenue variance for 2013 to 2016 would be \$47,222.00, or 2.6%, as opposed to the \$113,777.00 or 6.62% stated in the OSC's audit (an average of \$11,805.00 per year).

See
Note 4
Page 17

Expenditures

In comparing budgeted appropriations to actual expenditures, the Draft Report also stated that the Library overstated expenditures in five categories, totaling \$398,908 in overstated but under spent expenditures over the same four-year period. The Library maintains that its actual overestimation during this period for the categories stated is actually \$120,644, 69.8% less than the amount the Draft Report asserts.

See
Note 6
Page 17

We believe that the bulk of this difference is explained by the method of budgeting used by the Library – placing anticipated expenditures in broad expenditure categories that differ from the more detailed lines than the Draft Report utilizes. In summary, while the Library's budgeting practice is, admittedly, less detailed than larger government entities (such as a school district or town), the Library feels that the major divisions used by the Library have been adequate for its budgeting needs. Moreover, when budgeted expenditures are compared to actual expenditures using the Library's methodology, the total four-year variance drops from \$398,908 to \$120,644. The following paragraphs detail our disagreement with the findings in figure 2 of the Draft Report, and are presented in a revised table form below.

See
Note 5
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See
 Note 6
 Page 17

The Library’s budget consists of a minimal number of major category line items which both the Board and the public votes on. For example, the Library’s division “Library Materials” includes books, DVDs, periodicals, music CDs, e-books, audio books, board and video games and other “borrowable” items. That line, referenced in the Library’s budget (and *voted on* by the Board) is for the total expenditure for all types of materials, the respective proportions of which may change with collection needs, changes in culture, physical space concerns, grant funding and other variables. Budgeting by line item would restrict our ability to respond in a timely fashion to the changing needs of the community and *is not required by law for libraries, as it is for school districts.*

In calculating overestimated appropriations (figure 2 in the Draft Report), our major category “total” line item for the budget categories, “Library Materials,” “Library Operations,” and “Building” were not included, painting an inaccurate representation of our budget variances. Once the “total” line items (i.e., our official budget line items) are included, our total variance for these categories from 2013 to 2016 is as follows:

- Library Materials: a variance of \$95,918, as opposed to OSC’s figure \$159,000.
- Library Operations: a variance of \$13,319, as opposed to \$144,088.
- Staff Payroll: a variance of \$-2,701 as opposed to \$50,744
- Building Expenses: a variance of \$5,178 as opposed to \$36,136.

See
 Note 6
 Page 17

The following table summarizes the analysis using the aggregated actual expenditures from the Library’s “total” divisions, which are not accounted for in the Draft Report’s Figure 2.

| Library Materials - Total² | | | |
|----------------------------------------------|-----------------|---------------|-----------------|
| | Budgeted | Actual | Variance |
| 2013 | \$44,000.00 | \$22,768.00 | \$21,232.00 |
| 2014 | \$44,000.00 | \$16,771.00 | \$27,229.00 |
| 2015 | \$41,000.00 | \$11,037.00 | \$29,963.00 |
| 2016 | \$30,000.00 | \$12,506.00 | \$17,494.00 |
| Totals | | | \$95,918.00 |

| Library Operations - Total | | | |
|-----------------------------------|-----------------|---------------|-----------------|
| | Budgeted | Actual | Variance |
| 2013 | \$40,400.00 | \$37,730.00 | \$2,670.00 |
| 2014 | \$40,400.00 | \$44,477.00 | -\$4,077.00 |
| 2015 | \$43,310.00 | \$40,468.00 | \$2,842.00 |
| 2016 | \$51,063.00 | \$39,179.00 | \$11,884.00 |
| Totals | | | \$13,319.00 |

² Materials spending has been lower than budgeted due, in part, to a current limitation on space for new materials. Library staff is considering better ways to deploy these resources more effectively in the coming year.

| New York State Retirement | | | |
|----------------------------------|-----------------|---------------|-----------------|
| | Budgeted | Actual | Variance |
| 2013 | \$40,000.00 | \$44,466.00 | -\$4,466.00 |
| 2014 | \$49,000.00 | \$41,401.00 | \$7,599.00 |
| 2015 | \$40,000.00 | \$43,736.00 | -\$3,736.00 |
| 2016 | \$50,000.00 | \$40,458.00 | \$9,542.00 |
| Totals | | | \$8,939.00 |

| Staff Payroll (gross) | | | |
|------------------------------|-----------------|---------------|-----------------|
| | Budgeted | Actual | Variance |
| 2013 | \$236,000.00 | \$221,055.00 | \$14,945.00 |
| 2014 | \$221,990.00 | \$234,642.00 | -\$12,652.00 |
| 2015 | \$239,682.00 | \$248,085.00 | -\$8,403.00 |
| 2016 | \$252,610.00 | \$249,210.00 | \$3,400.00 |
| Totals | | | -\$2,710.00 |

| Building- Total | | | |
|------------------------|-----------------|---------------|-----------------|
| | Budgeted | Actual | Variance |
| 2013 | \$12,000.00 | \$10,376.57 | \$1,623.43 |
| 2014 | \$12,000.00 | \$7,589.30 | \$4,410.70 |
| 2015 | \$12,136.00 | \$7,585.00 | \$4,551.00 |
| 2016 | \$0.00 | \$5,407.00 | -\$5,407.00 |
| Totals | | | \$5,178.13 |

Total 4-year Variance \$120,644.13

See
 Note 6
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In short, this is a categorization issue, not a fundamental underestimation of our expenditures as the Draft Report suggests. While we agree that it can be solved by the use of more detailed budgeting lines that directly align with the expenditure categories in [REDACTED], the examination staff could not point to any legal or accounting obligation applicable to the Library that demonstrated that the Library’s use of the broader categories for expenditure budgeting was improper. The Library will, nevertheless, develop a budget methodology with greater detail.

Fund Balance

Although the Draft Report acknowledges that the Board has already created a contingency fund policy and has also designated a portion of the fund balance as a “capital reserve fund,” it still suggests that a “high fund balance can indicate that the level of taxation is too high and probably should be reduced.” We respectfully disagree that the level of taxation for the Library is too high. As was explained to OSC staff during the examination, the majority of the fund balance has been designated to a planned capital project (in excess of \$200,000) and we do not believe that the remaining fund balance, which is subject to our contingency fund policy,

See
 Note 3
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and which, at roughly \$150,000 represents one-third of our annual budget, is excessive. Not only is this amount available for unanticipated events, it also serves as a fund to cover operations at those times of the year where tax revenues have been levied, but not yet collected. In short, we believe the fund balance reflects sound fiscal management more than intentional over taxation.

RECOMMENDATION

Recommendation: The Board should: 1. Develop and adopt budgets that include realistic estimates for revenues and expenditures based on all information available at the time. 2. Use surplus funds as a financing source for: funding one-time expenditures, funding needed reserves, reducing property taxes.

With respect to item “1.,” the Board believes that the budgets it adopted and developed for 2013 through 2016 included “realistic estimates for revenues and expenditures based on all information available at the time,” and it agrees that continuing to do this is critical to its fiduciary role. As noted above, the Board has not included revenue estimates for certain categories (interest, fines/fee, grants, etc.) in past budgets unless it could be reasonably assured that the revenues would be recognized in a specific amount. However, we acknowledge the point made by OSC staff that budgeting nothing for grants, fines/fees, and interest when we know that revenues will be likely be received in those categories, is something that we can and should avoid in the future because of the likelihood that it will lead to budget variances. We will, therefore, make an effort to reasonably estimate these revenues in future budgets.

See
Note 4
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Regarding item “2.,” the board appreciates and accepts the OSC staff suggestion that it can and should budget for long-term needs by including lines in its budgets for items like capital fund contributions, repair contingency funds, etc. Although we have been advised by counsel that we are not required to utilize statutory reserve funds required of school districts and other municipalities, we acknowledge that transparency will be enhanced if our budget expressly states that revenues will be assigned to growth contingency funds and restricted funds for specific purposes. To that end, the Library has prepared budget revisions for the current fiscal year and for fiscal year 2018, which will expressly account for “surplus” funds by assigning them to fund various library operations and eliminate the need for any requested increase in the tax levy in 2018.

Corrective Action Plan:

1. Commencing with the next budget cycle, the Board will include reasonable estimates in its budget for all revenue categories in which it has customarily recognized revenues.
2. Commencing with the next budget cycle, the Board will attempt to include expenditure lines that account for the moneys that have otherwise moved to undesignated fund balance at the ends of the fiscal year. While we have already designated certain portions of the fund balance and restricted certain funds after they

have accrued (for proper purposes, such as a planned capital project), we acknowledge that we can do some of this work prospectively during the budget formulation process.

3. The Board will ask the Treasurer to make greater use of detailed line-items in future budgets. Although we have some apprehension that doing so increase the work load on our part-time staff, we are willing to explore expanded use of these detailed budget categories in the future.

In closing, we remain committed to being responsible and compliant stewards of the Library's assets and are pleased that, after OSC staff spent several weeks doing its examination, the report found no issues other than these limited concerns regarding our budgeting process.

Thank you for the opportunity that this exercise has given us to consider ways to enhance our stewardship.

Very truly yours,

Lynne Ridgeway
President of the Board of Trustees

cc: Board of Trustees
John Georghiou, Library Director
Barbara Jacobini, Treasurer

APPENDIX B

OSC COMMENTS ON THE OFFICIALS' RESPONSE

Note 1

As detailed in the report, the Board has consistently underestimated revenues and overestimated expenditures over the past four years.

Note 2

The report has been revised to reflect that the Library is located in the Town of Plattekill.

Note 3

The budget process is not transparent if the Board underestimates revenues and overestimates expenditures to increase fund balance so that the excess can be transferred to the capital reserve to purchase a building.

Note 4

Library officials could have estimated grants, interest, fines and State aid based on the previous years' amounts. The 2.6 percent variance in 2013 increased to 10.5 percent in 2016. Considering the size of the Library's annual budget, over time, a 2.6 annual variance becomes significant. The 10.5 percent revenue variance resulted in an underestimation of revenues over a two-year period totaling \$91,937.

Note 5

The Board budgeted each year for the cost of library materials, including books, but did not budget for grants that would be received for those costs. As a result, the Board budgeted for and collected funds from taxpayers that were not needed. In addition, grant funds that are received every year are not "unexpected" and all grants, including non-cash grants, should be included in the budget for transparency.

Note 6

The analysis in the report shows that the Board overestimated expenditures for five line items by a total of \$398,908. Budgeting by line item provides flexibility, oversight and transparency. The Board budgets by major category and then enters expenditures into their respective line items once the money is spent. This practice is not transparent because it does not give residents the actual amount of money to be spent for each line item. The Library is not excluded from proper budgeting due to its type of entity and the budgeting practices used by Library officials are ineffective.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if revenue and expenditure projections were reasonable. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Library officials and reviewed documents such as policies, procedures and financial records and reports to obtain an understanding of the organization.
- We reviewed internal controls and procedures for computerized financial databases to determine whether the information provided was reliable.
- We reviewed the Board meeting minutes and resolutions to gain an understanding of the Library's budget development processes.
- We obtained information from Board members concerning the budget process, procedures and their understanding of the Library's financial position.
- We analyzed revenue and expenditure trends and budget-to-actual comparisons for the operating fund from 2013 through 2016 and calculated percentage variances.
- We reviewed total revenues and expenditures from 2013 through 2016 to determine the operating surpluses.
- We reviewed financial reports for the capital fund and bank accounts for balances.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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