



Town of Galway

Financial Operations

Report of Examination

Period Covered:

January 1, 2008 — March 30, 2011

2011M-223



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2012

Dear Town 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 Town 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 Town of Galway, entitled Financial Operations. 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 General Municipal Law.

This audit's results and recommendations 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 Town of Galway (Town) is located in western Saratoga County, encompasses approximately 44 square miles and includes the Village of Galway. The Town has a Justice Court and special lighting district and provides fire protection, general administration, recreation, road maintenance and plowing services to its 3,486 residents. The Town's highway department is responsible for maintaining 58 miles of road.

The Town accounts for most of its financial activity in the general and highway town-wide and town outside village (part-town) funds. In 2010, the Town had operating expenses of \$1.67 million and in 2011 the Town's adopted budget contained total appropriations of \$1.79 million. The Town derives its revenues mainly from real property tax, sales tax and State aid.

The Town Board (Board) which comprises five elected members – the Town Supervisor (Supervisor) and four Board members – governs the Town. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor is the chief executive officer and chief fiscal officer of the Town and is responsible for virtually all of the Town's financial duties. These duties include monitoring the budget, receiving and disbursing Town moneys, keeping records of cash receipts and disbursements, and preparing various financial reports.

Objective

The objective of our audit was to review the Town's budgeting practices and financial condition. Our audit addressed the following related questions:

- Does the Town adopt reasonable, structurally balanced budgets and take actions to maintain the Town's financial stability?

Scope and Methodology

We interviewed Town officials, examined financial statements and budgets and reviewed Town procedures for the period January 1, 2008 to March 30, 2011. Subsequent to fieldwork, we expanded our scope to include the 2012 adopted budget.

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.

**Comments of
Local Officials and
Corrective Action**

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

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 forwarded to our office within 90 days, pursuant to Section 35 of the 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 this plan available for public review in the Town Clerk's office.

Budgeting

An essential component of the Board's duties and responsibilities is to make sound financial decisions that are in the best interest of the Town and the taxpayers that fund its operations. This responsibility requires Board members to balance the level of services desired and expected from Town residents with the ability and willingness of the residents to pay for such services. It is essential that the Board adopt structurally balanced budgets for all of its operating funds that provide recurring revenues to finance recurring expenditures. Town officials should avoid relying on the availability of surplus fund balance as a recurring revenue source to finance recurring expenditures. This ultimately depletes fund balance below a reasonable level, leaving no financial cushion if unforeseen expenses arise.

During the audit period, the Board did not properly allocate sales tax revenue and adopt structurally balanced budgets. Instead, the Town routinely relied heavily on appropriating unreserved fund balance to finance operations in its general and highway funds. As a result, three operating funds incurred budgetary deficits for various years.

Sales Tax Allocation – The Village of Galway is located in the Town of Galway. Tax Law provides that, if a town with a village receives sales tax payments from the county and the village also receives such payments directly from the county, the town is to first use the sales tax proceeds to benefit the area outside the village.¹ However when such a town does not levy property taxes in its part-town funds, it may then apply portions of the sales tax revenues on a town-wide basis.

The Town does not properly allocate sales tax revenues. In 2008 and 2009, the Board did not levy taxes in its part-town funds, and appropriately distributed sales tax revenues to both part-town and town-wide funds. However, in both 2010 and 2011, the Board levied taxes totaling \$250,000 in the part-town highway fund, but continued to distribute sales tax to both part-town and town-wide funds, instead of first using sales tax revenue to eliminate the property tax levy in the part-town highway fund. Subsequent to fieldwork, we confirmed that this practice continued with the adoption of the 2012 budget as the Town adopted a property tax levy totaling \$250,000 in the part town highway fund, while allocating \$430,000 in sales tax to the town wide general fund and \$325,000 to the town-wide highway fund. This practice resulted in inequitable taxpayer burdens in 2010, 2011, and 2012 as part-town residents were taxed while sales tax revenues,

¹ Such operations are accounted for in the part-town funds.

which should have been distributed to the part-town funds first, were also distributed to the town-wide funds before the property tax levy was eliminated in the part-town highway fund.

Since the Town did not eliminate the tax levy for the part-town highway fund, the town-wide general and town-wide highway funds owe the part-town highway fund \$500,000 at December 31, 2011, and will owe an additional \$250,000 at December 31, 2012, unless the town Board makes the appropriate amendments to the allocation of sales tax revenue. As of the close of 2010, neither the town-wide general nor the town-wide highway fund was in the position to repay the part-town highway fund.²

Furthermore, in the 2010 and 2011 budgets, the Board actually decreased the portion of sales tax allocated to the part-town funds. In 2008 and 2009, the Town estimated a total of \$940,000 in sales tax revenues would be received, and allocated \$535,000 of that amount to the part-town funds. Then in each of the 2010 and 2011 budgets, the Board estimated a total of \$880,000 of sales tax revenues would be received, but only allocated \$110,000 to the part-town funds each year. If the Board had not reduced the allocation of sales tax to the part-town funds, it would not have been necessary to levy taxes on the part-town highway fund.

The Supervisor informed us that he was unaware of the requirement to eliminate the tax levy on part-town taxpayers before any sales tax revenue could be allocated to town-wide funds. However, even after we informed the Supervisor of this taxpayer equity concern, the practice continued in the 2012 budget.

Fund Balance Appropriation – An appropriation of fund balance is the use of unexpended resources from prior years to finance appropriations contained in the budget and is considered a “one shot” financing source, but it is an acceptable practice when a local government has accumulated an adequate level of surplus fund balance. However, when a local government has operating deficits each year, it gradually depletes the unappropriated fund balance until it turns into a deficit fund balance, thereby leaving nothing available to be used for financing successive budgets and causing the Board to either increase revenues (e.g., property taxes) and/or decrease appropriations (e.g., services) in order to adopt a structurally balanced budget.

² The town-wide general fund reported an unreserved/unappropriated fund balance of \$101,076 in 2010 and the town-wide highway fund reported a deficit unreserved/unappropriated fund balance of \$20,437.

From 2008 to 2011, the Town placed significant reliance on appropriating fund balance as a financing source in each operating fund.³ In addition, Town officials did not prepare fund balance projections to ensure that amounts appropriated would be available. We found the Board appropriated more fund balance than was available in the town-wide general fund, and part-town and town-wide highway funds. As a result, each of these three operating funds incurred budgetary deficits for various years during our scope period.

The 2009 adopted budget for the town-wide general fund appropriated more fund balance than was available at the end of 2008, resulting in a budgetary deficit totaling \$79,543 (Table 1). Similarly, the 2009, 2010, and 2011 adopted budgets in the town-wide highway fund appropriated more fund balance than was available in each year, resulting in budgetary deficits of \$115,111, \$36,319, and \$20,437 (Table 2). The Town also relied too heavily on fund balance as a financing source in the 2010 and 2011 budgets for the part-town highway fund resulting in budgetary deficits totaling \$69,434 and \$131,366 for 2010 and 2011, respectively (Table 3).

Description	2008	2009	2010	2011
Fund Balance Available for Appropriation	\$498,732	\$283,550	\$93,313	\$121,424
Fund Balance Appropriated	\$326,571	\$363,093	\$4,008	\$20,348
Beginning Unreserved/Unappropriated Fund Balance	\$172,161	(\$79,543)	\$89,305	\$101,076

Description	2008	2009	2010	2011
Fund Balance Available for Appropriation	\$126,843	(\$44,691)	(\$27,294)	\$13,238
Fund Balance Appropriated	\$15,120	\$70,420	\$9,025	\$33,675
Beginning Unreserved/Unappropriated Fund Balance	\$111,723	(\$115,111)	(\$36,319)	(\$20,437)

³ The operating funds include the town-wide and part-town general funds and the town-wide and part-town highway funds.

Table 3: Part-Town Highway Fund				
Description	2008	2009	2010	2011
Fund Balance Available for Appropriation	\$152,055	\$164,737	\$159,548	\$114,376
Fund Balance Appropriated	\$64,500	\$87,800	\$228,982	\$245,742
Beginning Unreserved/Unappropriated Fund Balance	\$87,555	\$76,937	(\$69,434)	(\$131,366)

The over reliance on fund balance as a financing source resulted in budgets that were not structurally balanced and caused a depletion of fund balance in the town-wide highway and general funds and constraints on the Town’s financial flexibility in future years. The Town continued this trend in 2012 by appropriating \$77,415 in the town-wide general fund and \$41,782 in the town-wide highway fund.

The town-wide general fund reported a decrease in the total fund balance from \$498,732 in 2008 to \$121,424 in 2011 (Table 1), a decrease of 76 percent. The town-wide and part-town highway funds reported similar fluctuations. The town-wide highway fund reported a decrease of \$113,605, a 90 percent decrease and the part-town highway fund balance decreased from \$152,055 in 2008 to \$114,376 in 2010, or 25 percent. Combined, the two town-wide funds reported fund balance of about \$135,000; however, this does not include the \$500,000 that the town-wide funds owe to the part-town highway fund. Had this liability been properly recorded, the total fund balance of the town-wide funds would have been (\$365,000).

The town-wide funds are unlikely to be able to repay the part-town highway fund during 2012 and correct the taxpayer inequity caused by the improper allocation of sales tax. Changing the allocation of future sales tax coupled with the need to repay prior sales tax allocations to the town-wide funds will require substantial changes in future budgets. It is important for Town officials to closely monitor the financial status of these funds and address the deficits in the town-wide funds.

Recommendations

1. The Board should adopt budgets which include the equitable allocation of sales tax revenues and provide for the payment of prior years inequitable allocations.
2. Town officials should establish and the Board should adopt a budgeting policy which requires reasonable, structurally balanced budgets to be adopted and periodic monitoring of operations and cash flow.

3. The Board and Town officials should prepare year-end fund balance projections to determine what amounts of fund balance will be available for appropriation in the ensuing year's budget and be sure to appropriate no more fund balance than what is available.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF GALWAY

SARATOGA COUNTY, NY
ESTABLISHED 1792

P.O. Box 219
Galway, NY 12074
(518) 882-6070

March 27, 2012

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

Dear Sir,

Reference Report of Examination 2011M-223.

In response to this audit, on page seven paragraph 3 (See Attached), it is noted that the auditor meet with the board members to discuss the distribution of sales tax. These meetings did not occur.

See
Note 1
Page 13

The recommendations noted in the audit as to the budget process and the distribution of sales tax will be implemented immediately. We will be following the fund balances monthly by way of a report to the full board showing cash flow. This will give the board the projected fund balances for year end by fund. All future budgets will reflect the proper distribution of sales tax and only then will the town wide funds receive the balance of the sales tax.

Sincerely,

George J. Hargrave
Supervisor
Town of Galway

2010, neither the town-wide general nor the town-wide highway fund was in the position to repay the part-town highway fund.²

Furthermore, in the 2010 and 2011 budgets, the Board actually decreased the portion of sales tax allocated to the part-town funds. In 2008 and 2009, the Town estimated a total of \$940,000 in sales tax revenues would be received, and allocated \$535,000 of that amount to the part-town funds. Then in each of the 2010 and 2011 budgets, the Board estimated a total of \$880,000 of sales tax revenues would be received, but only allocated \$110,000 to the part-town funds each year. If the Board had not reduced the allocation of sales tax to the part-town funds, it would not have been necessary to levy taxes on the part-town highway fund.

Board members informed us that they were unaware of the requirement to eliminate the tax levy on part-town taxpayers before any sales tax revenue could be allocated to town-wide funds. However, even after we informed officials of this taxpayer equity concern, they continued this practice in the 2012 budget.

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³ The operating funds include the town-wide and part-town general funds and the town-wide and part-town highway funds.

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Contains Non-Final, Intra-agency and/or Interagency Materials That May Be Exempt From Disclosure Under the Freedom of Information Law

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

The Town Supervisor's response in Appendix A makes reference to an attachment which is a page from the draft report discussed at the exit meeting held on February 28, 2012. As we discussed with the Supervisor at the exit meeting, the paragraph referenced in the response contains information related to meetings held with "Board members." The meetings were actually held with the Supervisor, who is a member of the Board, during the course of the audit. The audit team informed the Supervisor that the wording in the final report would be modified to reflect that the conversations were held with the Supervisor during the audit and that change is included in this report.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Town officials and employees, tested selected records and examined pertinent documents for the period January 1, 2008 through March 30, 2011. Our procedures included the following:

- We interviewed officials budgeting or fiscal responsibilities to obtain an understanding of the Town's policies, procedures and practices.
- We reviewed records and documents used by the Board in the preparation of the budgets.
- We reviewed financial records for the fiscal years ending 2008, 2009 and 2010 to analyze changes in fund balance and cash assets.
- We reviewed adopted budgets for the 2008, 2009, 2010 and 2011 fiscal years to identify unrealistic revenue and appropriation estimates and structural imbalances in the budgets.
- Subsequent to fieldwork, we reviewed the 2012 adopted 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.

APPENDIX D

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