



Town of Moreau Financial Management

Report of Examination

Period Covered:

January 1, 2009 — December 31, 2011

2012M-24



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 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 Town of Moreau, entitled Financial Management. 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 Moreau (Town) is located in Saratoga County (County) and has approximately 14,700 residents. The Town includes the Village of South Glens Falls (Village) within its borders. The Town is governed by an elected five-member Town Board (Board) which comprises the Town Supervisor (Supervisor) and four council members. The Board is responsible for overseeing the Town's operations, finances, and overall management. The Supervisor, as chief fiscal officer, is responsible for overseeing the financial management of the Town's moneys.

The Town provides various services to its residents, including maintaining and improving Town roads, snow removal, public improvements, planning and zoning, recreation and cultural activities, water, and general government support. The Town's major operating funds are the town-wide general fund, the part-town general fund, and the part-town highway fund.¹ The Town also maintains six water districts. The Town's budgeted appropriations for the 2011 fiscal year were approximately \$6.4 million, funded primarily by real property taxes, sales tax, and user charges. The town-wide general fund accounted for 41 percent of these appropriations; the part-town general fund, for 4 percent; the part-town highway fund, for 34 percent; and the combined six water districts, for 9 percent.

Objective

The objective of our audit was to review the Town's financial management. Our audit addressed the following related question:

- Did the Board have adequate financial management procedures in place for the level of fund balance to be maintained, and was the amount reasonable?

Scope and Methodology

We examined the Town's financial management for the period January 1, 2009 to December 31, 2011.

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 B of this report.

¹ The town-wide general fund has a tax base that encompasses the whole Town, including the Village. The part-town general and part-town highway funds have tax bases that encompass only the portion of the Town that lies outside the Village.

**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. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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.

Financial Management

The Board is responsible for making sound financial decisions that are in the best interests of the Town and the taxpayers. This requires the Board to balance the level of services expected by the Town's residents with the ability and willingness of the residents to pay for them. A basic component of local government budgeting is the prudent use of fund balance, which is the difference between revenues and expenditures accumulated over time.

The Town can legally set aside, or reserve, portions of fund balance for specified purposes, or can designate the unexpended surplus portion of fund balance² to either help finance the next year's budget or to retain as a financial cushion in the event of unforeseen financial circumstances. Accordingly, the Board is responsible for developing policies and procedures to ensure that the amount of fund balance accumulated is reasonable. Finally, it is important for the Board to develop and follow a long-term financial and capital plan to address the Town's ongoing operational and capital needs. If these practices are followed, only the necessary amount of real property taxes will be raised and user fees charged, and taxpayers can have assurance that their moneys are well managed.

The Board did not adopt a policy or develop procedures to govern the level of fund balance maintained. Additionally, the Board had not developed accurate budget estimates or a formal, comprehensive multiyear financial and capital plan to adequately address the Town's long-term operational and capital needs. As a result, the town-wide general fund, part-town general fund, and four of the Town's six water districts have retained and/or accumulated excessive amounts of unexpended surplus fund balance. Table 1 shows unexpended surplus fund balance trends over a three-year period:

² The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

**Table 1: Unexpended Surplus Fund Balances^a at Year End
as a Percentage of the Ensuing Year's Budget**

Fiscal Year End	Town-Wide General Fund		Part-Town General Fund		Water District II	
	2009	\$3,328,045	116%	\$1,773,422	635%	\$544,817
2010	\$2,841,493	108%	\$1,743,409	627%	\$633,598	447%
2011 ^b	\$2,454,908	94%	\$1,842,351	689%	\$720,990	529%
	Water District III		Water District IV		Water District V	
2009	\$65,183	137%	\$456,233	360%	\$100,798	520%
2010	\$82,833	278%	\$513,311	530%	\$151,983	1,135%
2011 ^b	\$96,317	233%	\$799,704	750%	\$171,704	1,018%

^a Prior to GASB Statement 54 implementation, the 2009 and 2010 fiscal years' financial statements referred to this as unreserved, unappropriated fund balance.
^b Projections based on preliminary data.

Budgeting and Fund Balance

Maintaining a reasonable level of unexpended surplus funds is a key element of effective long-term financial planning. If the amount retained is too low, the Town may not have a sufficient financial cushion for emergencies. However, if this amount is excessive, moneys are unnecessarily withheld instead of being used to benefit the taxpayers. The Board is therefore responsible for adopting budgets based on realistic estimates of revenues and expenditures, and using unexpended surplus funds as a funding source when appropriate.

The town-wide general fund (funded primarily with property taxes), the part-town general fund (funded primarily with sales tax revenue), and four of the six water districts (funded primarily with user charges) have retained and/or accumulated excessive amounts of unexpended surplus fund balance because the Board adopted budgets that were not based on realistic estimates. As a result, the Town did not use \$855,675³ (42 percent of the \$2,056,824 in fund balance appropriated during 2009 and 2010) for these operating funds.

Town-Wide General Fund — In 2009 and 2010, the Board overestimated expenditures by a total of \$921,296. During the same time period, the Board appropriated \$1,888,949. While the fund realized operating deficits during this time period, both deficits were less than the amounts planned.⁴ As a result, a total of \$782,962, or 41 percent of the fund balance appropriated during 2009 and 2010,

³ \$782,962 (town-wide general fund) + \$53,778 (part-town general fund) + \$18,935 (total of water district II, III, IV, and V)

⁴ A planned operating deficit occurs when the Board intentionally adopts a budget in which estimated revenues are less than appropriations, with the difference to be funded with appropriated fund balance.

was not used. Based on our review of the Town's financial records through the end of our audit period, we project that the Board once again overestimated expenditures during 2011 and, therefore, \$637,238 in fund balance that was appropriated will not be entirely used. Therefore, the town-wide general fund will continue to retain excessive fund balance.

While the Town has not used all of the fund balance that was appropriated during the last three fiscal years, the Board has made an effort to reduce the town-wide general fund's unexpended surplus fund balance by not only appropriating significant amounts of fund balance each fiscal year,⁵ but also reducing the tax levy in the town-wide general fund, thereby enabling the use of appropriated fund balance. Additionally, the Supervisor provided us with an informal plan for the town-wide general fund for 2012 through 2016, which projects the amount of fund balance the Town will appropriate over the next five fiscal years to reduce the excessive fund balance. It is important that the Board formally establish this plan, or otherwise develop an appropriate plan, to address the excessive fund balance in the town-wide general fund.

Part-Town General Fund— In 2009 and 2010, the Board overestimated expenditures by a total of \$132,747. During the same time period, the Board appropriated \$148,940 in fund balance (all in the 2010 budget). The fund realized an operating surplus totaling \$38,262 in 2009 and an operating deficit totaling \$95,162 in 2010. As a result, a total of \$53,778, or 36 percent of the \$148,940 in fund balance appropriated during 2010, was not used. Based on our review of the Town's financial records through the end of our audit period, we project that the Board once again overestimated expenditures during 2011 and, therefore, \$83,791 in fund balance that was appropriated will not be entirely used. Therefore, the part-town general fund will continue to retain excessive fund balance.

The Board has correctly adopted budgets including sales tax revenues and eliminating real property taxes in its part-town funds (general and highway) before allocating any sales tax revenues to town-wide funds.⁶ Reducing the part-town general fund balance to a reasonable level may enable the Town to either apply additional sales tax revenues

⁵ In the town-wide general fund, the Town appropriated fund balance of \$1,265,853 in 2009, \$623,096 in 2010, and \$637,238 in 2011.

⁶ 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.

to reduce County property taxes⁷ on the area of the Town outside the Village (the part-town tax base) or allocate sales tax revenue to the town-wide general fund to reduce property taxes.

Water Districts — Four of the water districts (II, III, IV, and V) accumulated excessive surplus funds over the last several fiscal years, resulting from a combination of underestimated revenues and overestimated expenditures. The Board underestimated revenues in its adopted budgets for fiscal years 2009 and 2010 by a total of \$93,485 for water district IV, and by \$58,521 for water district V; and overestimated expenditures during 2009 and 2010 by a combined total of \$265,672 for all four of the water districts.

The Board also adopted budgets with a planned operating surplus⁸ for water districts II and IV during 2009 and water districts II, IV, and V during 2010. In these districts, the actual operating surpluses totaled \$426,188 (exceeding the planned surpluses by a combined total of \$343,063) in the two years. As a result of these budgeting practices, none of the \$18,935 in fund balance that was appropriated during 2009 and 2010 was actually used. For 2011, the Board has adopted budgets with a planned operating surplus for all four of these water districts. Based on the Town's financial records through the end of our audit period, we project that all four water districts will realize surpluses in excess of those planned. As a result, they will continue to accumulate excessive fund balances.

The Board's budgeting practices have tied up significant amounts of money that remain idle year after year. The Town could more prudently apply some of these unexpended surplus funds to water district operations. The Board's repeated budgeting of planned surpluses indicates that water rates are unnecessarily high and should be re-evaluated. Rates in the four water districts have not been changed over the last three fiscal years.

The adopted budget for the town-wide general fund for the 2012 fiscal year includes the appropriation of \$624,184 in fund balance, and thus the Board has planned to reduce the fund's excessive fund balance. However, the Board adopted budgets with planned operating surpluses for the part-town general fund and four water districts for the 2012 fiscal year, and thus these funds will likely continue to retain and/or accumulate excessive fund balance.

⁷ The Town applied sales tax revenues to reduce County taxes on the area of the Town outside the Village of \$419,000 in 2009, \$400,000 in 2010, and \$200,000 in 2011.

⁸ A planned operating surplus occurs when the Board intentionally adopts a budget in which estimated revenues are in excess of appropriations.

Budgeting practices that result in the retention and/or accumulation of excessive fund balances do not provide adequate accountability to Town residents regarding the use of their resources, and result in a higher tax levy and higher water user charges than necessary.

Long-Term Planning

An important oversight responsibility of the Board is to plan for the future by setting adequate long-term priorities and goals. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Planning on a multiyear basis allows Town officials to identify developing revenue and expenditure trends and set long-term priorities and goals. Any long-term financial plans should be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board did not develop and adopt a comprehensive, multiyear financial and capital plan. Such plans would be a useful tool for the Board to address the large fund balances in the Town's operating funds and to maintain a reasonable level of unexpended surplus funds at year end.

Recommendations

1. The Board should adopt budgets with realistic estimates for revenues, expenditures, and appropriated fund balance.
2. The Board should adopt a policy and develop procedures governing the level of fund balance to be maintained and for retaining a reasonable amount of unexpended surplus funds in all Town operating funds.
3. Town officials should use the unexpended surplus funds identified in this report in a manner that benefits Town taxpayers. Such uses could include, but are not limited to:
 - Reducing property taxes
 - Reducing water user charges
 - Funding necessary reserves
 - Financing one-time expenses.
4. The Board should develop and adopt comprehensive multiyear financial and capital plans to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Town of Moreau

SARATOGA COUNTY, STATE OF NEW YORK
Preston L. Jenkins, Jr., Supervisor

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Gina LeClair
Deputy Supervisor

Todd Kusnierz
Councilman

Robert Prendergast
Councilman

Robert Vittengl, Jr.
Councilman

May 11, 2012

██████████
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

*Re: Town of Moreau
Response to Exit Discussion*

Dear ██████████:

In compliance with the request to mail the Town's response in addition to the fax copy sent to you on May 10th, 2012, enclosed is the signed document.

If you have any further questions or comments, please do not hesitate to contact this office.

Sincerely,


Preston L. Jenkins, Jr.
Supervisor

PLJ/tm

c. Francine Thibodeau

Town of Moreau
Financial Management
Report of Examination
2012M-24

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed. For recommendations where corrective action has not been taken or proposed. We have included the following explanations.

Audit Recommendations:

Response:

1. The Town of Moreau town board will prepare a revised plan for producing budgets that will lower fund balances over a period of time. For town outside village we will return sales tax funds to Saratoga County to reduce the county tax for the part-town general fund tax base. In the Town wide General Fund we will reduce the fund balance by an estimated 2.5 million dollars over the next five years. For the six special water districts we will reduce rates to the same level for all users. We will then propose a merger off all six districts into one district. After merger we will have an asset management study performed to establish a recommendation for capital reserves required. If the study indicates excess fund balance we would further reduce water rates.

2. The Moreau Town Board will adopt policy and procedures to governing the level of fund balance to be maintained and for retaining a reasonable amount of unexpended surplus funds in all Town operating funds as outlined in response 1.

3. The Town Board has reduced taxes starting with 2009. We will continue to reduce taxes following the policy and procedures that will be established. Water rates will be reduced over time as determined by asset management studies of the merged water districts. Necessary reserves will be established in funds as determined by policy.

4. The Town of Moreau Town Board will adopt comprehensive multi-year financial and capital plans,

The Town of Moreau thanks the controllers office for responding to our request for a financial audit. Your staff was very helpful and respectful of our staff.

Thank you:

Preston Jenkins, Moreau Town Supervisor



APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets and monitor financial activities. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk.

During the initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents such as Town policies, Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial management for further audit testing.

To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed Town officials to gain an understanding of the Town's financial management policies and procedures. This included inquiries about the Town's budgeting practices and the preparation of multiyear financial and capital plans.
- We compared the unexpended surplus⁹ fund balances for the town-wide general fund, part-town general fund, and water districts, at fiscal year-end December 31, 2009 and December 31, 2010, with the 2010 and 2011 fiscal year's budgeted appropriations, respectively, to determine whether the fund balances were reasonable. Since the Town had not closed the books for the fiscal year ending December 31, 2011 at the time of our audit, we projected the unexpended surplus fund balances for the town-wide general fund, part-town general fund, and water districts at fiscal year-end based on the Town's trial balances and budget status reports for these funds as of December 31, 2011. We then compared these balances to the 2012 fiscal year's budgeted appropriations to determine whether the fund balances were reasonable.
- We compared the 2009 and 2010 fiscal year budgets with the town-wide general fund, part-town general fund, and water districts' actual results of operations to determine if budgets were realistic and supported. Since the Town had not closed the books for the fiscal year ending December 31, 2011 at the time of our audit, we compared the 2011 fiscal year budgets with the town-wide general fund, part-town general fund, and water districts' actual results of operations that were recorded through December 31, 2011 to project if budgets were realistic and supported.
- We analyzed and summarized historical trends in the town-wide general fund, part-town general fund, and water districts for the 2009 through 2011 fiscal years.

⁹ Prior to the 2011 fiscal year, the financial statements referred to these funds as unreserved, unappropriated.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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Steven J. Hancox, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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