



Town of Warsaw

Financial Management

Report of Examination

Period Covered:

January 1, 2010 — November 21, 2011

2012M-6



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 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 Warsaw, 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 Warsaw (Town) is located in Wyoming County and has a population of approximately 5,000 residents. The elected five-member Town Board (Board) is responsible for managing Town operations, including establishing internal controls over financial operations and maintaining sound financial condition. The Town Supervisor (Supervisor) is a member of the Board and serves as the chief executive and chief fiscal officer.

The Town provides various services including street maintenance, snow plowing, recreational programs, and general government support. The Town's 2011 budget totaled approximately \$1.5 million for all operating funds. Operations are financed primarily by real property taxes, user fees, and State aid.

The Supervisor, as the Town's Budget Officer, prepares the tentative budget. The Board has an opportunity to modify the budget before it is adopted. The Town must maintain fund balances at reasonable levels.

Objective

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

- Has the Board developed realistic budgets and properly monitored and managed the Town's financial condition?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. 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. Our initial assessment included a review of Board oversight and monitoring and evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing and payroll. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the area of financial management and, therefore, we assessed financial management for the period January 1, 2010, to November 21, 2011. We expanded the scope back to January 1, 2006 for the purpose of reviewing certain aspects of financial condition.

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.

**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 plan 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 interest of the Town and the taxpayers that fund its operations. The Board must adopt structurally balanced budgets for all operating funds that provide sufficient revenues to finance recurring expenditures. The Town may retain a reasonable portion of fund balance to use as a financial cushion in the event of unforeseen financial circumstances. Although there is no fixed percentage that is allowed, good business practice dictates that the Town only retain a reasonable amount for unforeseen needs.

When a Town has excessive fund balance, the Board can appropriate it to reduce taxes and/or establish reserves. The Board can legally reserve portions of fund balance to finance future costs for a variety of specified purposes. It is important for the Board to adopt budgets that include realistic estimates of revenues and expenditures, and use surplus fund balance as a funding source, when appropriate. If the Board follows these practices, it will raise only the necessary amount of real property taxes.

Town taxpayers have been paying more than needed to fund operations on an annual basis. The fund balances in three operating funds are excessive, as indicated in the chart:

Table 1: Unreserved, Unappropriated Fund Balances at Year End as a Percentage of the Ensuing Year's Budget						
Fiscal Year End	General Fund Town-Wide		General Fund Town-Outside-Village		Highway Fund Town-Wide	
	Unreserved, Unappropriated Fund Balance	% of Ensuing Year's Total Budget	Unreserved, Unappropriated Fund Balance	% of Ensuing Year's Total Budget	Unreserved, Unappropriated Fund Balance	% of Ensuing Year's Total Budget
2006	\$342,472	110%	\$31,568	213%	\$392,256	88%
2007	\$394,683	83%	\$35,617	240%	\$419,161	100%
2008	\$344,695	88%	\$34,538	233%	\$343,687	56%
2009	\$424,419	127%	\$35,123	228%	\$392,425	80%
2010	\$474,895	147%	\$36,979	241%	\$458,453	95%

On an annual basis, the Board appropriated fund balance as a financing source to balance the budget. However, the Town's operations resulted in surpluses, where revenue exceeded expenditures, so fund balance ultimately was not needed to finance operations. On average for all three funds, the Board appropriated \$123,084 of fund balance annually for the 2006 through 2010 fiscal years, but used an average of \$26,557, which was only 22 percent of the appropriated total. We

compared budget estimates to actual results in each fund for these fiscal years and found that appropriations were consistently overestimated, and revenues were consistently underestimated. For example, general fund court fines and fees revenue was underestimated by an average of over \$10,000 annually. Furthermore, appropriations for machinery and snow removal in the highway fund were annually overestimated by an average of nearly \$13,000 and \$25,000, respectively. For the 2010 fiscal year, the Town overestimated appropriations for insurance by \$13,000 in the general fund and overestimated machinery costs in the highway fund by \$25,300.

For the 2011 fiscal year, the Town will likely realize an operating surplus in both the town-outside-village fund (\$3,400) and highway town-wide fund (\$103,000). However, the general town-wide fund will likely report operating deficit (\$39,000). We estimate that fund balances in these funds will remain excessive in 2012 even after considering the operating deficit in the general town-wide fund.

We asked Town officials why fund balances have been so consistently high. Officials indicated that this has been the practice of the Town to save funds instead of having to obtain financing when making large capital purchases. However, because the Board did not formally establish reserves to restrict the use of the funds, subsequent administrations may use the fund balance for purposes other than what this and previous Boards initially intended.

Recommendations

1. The Board should develop a plan to reduce fund balance to a reasonable level. Excess fund balance should be used to establish needed reserves, to make capital acquisitions, to pay off debt, or to reduce property taxes.
2. The Board should develop and adopt budgets that include more realistic estimates for revenue and expenditures.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

April 11, 2012

██████████
Buffalo Regional Office
New York State Office of the State Comptroller
Division of Local Government and School Accountability
295 Main Street, Room 1050
Buffalo, NY 14203-2510

Dear ██████████:

The Warsaw Town Board is in receipt of and has reviewed the results of the preliminary draft findings of your recent examination of the Town of Warsaw. We appreciate the time and effort spent in reaching your findings. The Board has taken the recommendations of the report under advisement. The Town recently adopted a Fund Balance Policy and is in the process of establishing needed Reserves. The Town has also made a recent capital acquisition, soon to be the new Town Office building. The Town has reduced taxes for the 2011 and 2012 budgets.

The Board however feels that the State of New York may be using standards and baselines that may no longer be structured appropriately for small, rural municipalities. We, the Board, respectfully request that the state reconsider those formulas given the current economic climate and state mandates. Listed below are some examples that pertain to the Town of Warsaw, but could also apply to most rural local governments across New York State:

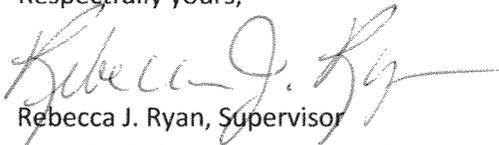
1. **Cost of Equipment:** A ten wheel dump truck with mandated pollution control equipment now costs approximately \$240,000. Loaders sell for near \$200,000. Excavators run in the range of \$150,000. This equipment is essential to maintain rural town highways. The Warsaw Town Board prefers to save each year toward such purchases rather than borrow, incur debt and interest payments. This allows the town to purchase equipment at better, opportune prices.
2. **Tax Cap:** Our State leaders have imposed a tax cap of 2% for our Town budgets, meanwhile doing nothing for promised mandate relief. At the same time the State has raised the Town's retirement contribution by 20% last year with another projected 19% increase this year. Health insurance has gone up 12%. The cost for salt for our roads increased 8% and blacktop increased \$6.25 per ton. Oil and stone costs for road projects are increasing \$1,400 per mile. Fuel costs are increasing 30%. These increases do not translate into 2%. Adequate fund balances allow the Town to tackle these uncontrollable costs without having to override the 2% cap.
3. **Town Hall Replacement:** The current and previous Town Boards recognized the need to move from the existing Town Office location and have been saving funds each year for the past ten years. These funds have enabled the Town to act prudently when the opportunity presented itself in 2012 to purchase and renovate property for that move.

A new Town Office building has long been necessary to provide adequate handicapped accessibility, a safer working environment, more appropriate public meeting room space, and to house the Town Court under the same roof. The new Town Office will house the Village Court and Court Clerk as well as the Town Court and Court Clerk, the Town Clerk, Zoning Department and the Tax Assessor's office. The new Town building will now be in compliance with State and Federal standards and regulations, costing over \$250,000. Because of the Board's diligence, the taxpayers of the Town of Warsaw did not and will not have to see their taxes increase due to this capital acquisition and renovation.

4. **Appropriations for Insurance:** In 2010 the new Town administration sought estimates for insurance as that had not been done in the past for many years. This resulted in an unanticipated savings of \$10,000 for the same coverage.

It takes a small town many years to recognize a financial position that enables it to cover current costs, and save for future spending. We are proud of what the Town has accomplished over the years and feel the taxpayers of Warsaw appreciate a Board that has made sound financial decisions in the past. The Board feels that by following the recommendations to formally establish needed reserves from the fund balances, subsequent administrations will have the proper guidance to continue to best serve needs of the Warsaw taxpayers .

Respectfully yours,



Rebecca J. Ryan, Supervisor

On behalf of the Town Board of the Town of Warsaw

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. 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. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing and payroll. During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents, 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. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope.

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

- We interviewed Town officials and employees.
- We reviewed Board minutes, annual reports, adopted budgets, budget status reports and year-end budget-to-actual reports.
- We obtained additional information from prior fiscal years and used it to demonstrate trends in the Town's fund balances and budgeting practices.

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.

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