



Town of Waterford

Financial Condition

Report of Examination

Period Covered:

January 1, 2010 — December 19, 2011

2012M-78



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 Board governance. Audits also can identify strategies to reduce Town costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Waterford, entitled Financial Condition. 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 Town 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 Waterford (Town) is located in Saratoga County and has a population of approximately 8,400 residents. The Town is governed by a Town Board (Board), which comprises a Town Supervisor (Supervisor) and four Councilmen. The Board is responsible for the general management and control of the Town's financial affairs, including establishing appropriate internal controls over financial operations. The Supervisor is the chief executive officer and the chief fiscal officer (CFO). As CFO, the Supervisor is responsible for receiving, disbursing, and maintaining custody of Town moneys, maintaining appropriate accounting records, and preparing monthly and annual financial reports.

The Town provides various services to its residents, including police protection, a justice court, sewer services, street lighting, highway and public facilities maintenance, and building, planning and zoning administration. The Town's budgeted appropriations for the 2012 fiscal year were approximately \$7.8 million, which were funded primarily with real property taxes, sales taxes, user charges, and State aid. Water is provided to residents by the Waterford Water Authority whose Board is appointed by the Supervisor for five-year terms. The Town's water fund is used to account for real property taxes collected to pay debt related to the Town's water system. No user rents are billed or collected by the Town.

Objective

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

- Does the Board adopt realistic budgets that are structurally balanced, routinely monitor financial operations, and take appropriate actions to maintain the Town's financial stability?

Scope and Methodology

We examined the Town's internal controls and financial records and reports for the period January 1, 2010, to December 19, 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.

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. The Board should make the CAP available for public review in the Town Clerk's Office.

Financial Condition

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. The Board is responsible for ensuring that resources are available to fund the cost of Town operations. Therefore, it is essential that the Board adopt realistic, structurally balanced budgets for all of the Town's operating funds that provide recurring revenues to finance recurring expenditures. The Board must plan to project future revenues and expenditures and prepare for any fiscal challenges in the ensuing years.

We found that for 2011 the Board's budget estimates were reasonable,¹ and we project an operating surplus in the corresponding funds with each having reasonable levels of fund balance for the year ending December 31, 2011, with the exception of the water fund. The 2012 budget estimates also appear reasonable and sufficient to maintain the Town's financial stability. The town-wide general and water funds experienced a significant decline in fund balance during 2010; however, through Board action this improved during 2011.

Tax Certiorari and Budgeting

The Town's financial condition relies on the Board's ability to adopt realistic budgets and manage the Town's financial operations throughout the year within the budgets' parameters. An important procedure for the Board to adequately monitor the budget is to regularly review the financial reports, comparing budgeted revenues and appropriations to actual results and making appropriate decisions based on that information.

Town-Wide General Fund – Tax certiorari is a legal proceeding whereby a taxpayer who has been denied a reduction in property tax assessment challenges the assessment on the grounds of excessiveness, inequality, illegality, or misclassification. During 2010, the Town had an unplanned expense totaling \$582,206 which was paid to three large commercial property owners due to tax certiorari actions. The Town paid this amount from the town-wide general fund (\$414,607), fire protection district (\$75,904), ambulance district (\$61,815), water fund (\$28,997), and a lighting district (\$883). As a result, the town-wide general fund experienced an operating deficit, which reduced its fund balance by 59 percent from \$942,922 as of January 1, 2010,

¹ As of May 1, 2012, the Town had not completed its 2011 financial statements because it was waiting for its certified public accounting firm to complete the Town's annual independent audit. As a result, the 2011 fund balances are still considered estimates.

to \$383,894 as of December 31, 2010. The remaining amount of the operating deficit (\$144,421) was due to the Town appropriating this amount to finance operations in the 2010 adopted budget.

To address the town-wide general fund deficit, the Town issued bond anticipation notes (BANs) totaling \$573,666² in October 2010. In February 2011, to reduce the affect of the BAN payments, the Board decided to convert the BANs to long-term debt to be paid over 15 years, which alleviated the 2010 town-wide general fund deficit. We project that in 2011 the Town will have an operating surplus of approximately \$386,000, and the town-wide general fund balance will be approximately \$770,000 as of December 31, 2011. Town officials told us that they do not expect any further significant contingencies in the foreseeable future.

Because the Town had sufficient cash reserves to initially make the tax certiorari payment, we do not see why the Town needed to subsequently borrow funds and incur the related interest costs for this borrowing.

Water Fund – The Town maintains a water fund to pay the bonded debt associated with the Town’s water system. During 2010, the Town paid \$28,997 from the water fund for tax certiorari actions. As a result, the water fund experienced an operating deficit, which caused it to decline from an existing deficit of \$1,499 as of January 1, 2010, to a deficit of \$31,996 as of December 31, 2010. Because the Board converted the BANs to long-term debt,³ we project that as of December 31, 2011, the water fund will have a deficit of \$759. Although the Board generally budgets only enough property tax revenue and use of fund balance for the water fund to pay its annual debt obligations, for the last few fiscal years the water fund has incurred an additional annual cost of \$1,500, which is classified as fiscal agent fees. Unless the Board raises sufficient revenue to cover these additional costs in future years, the water fund will continue to remain in a deficit position.

Multi-Year Financial Plan

Multi-year financial planning is a tool for local governments to improve financial planning. Planning on a multi-year basis allows for Town officials to identify developing revenue and expenditure trends, set long-tem priorities and goals, and avoid large fluctuations in tax rates. It also allows Town officials to assess the effect and merits of alternative approaches to address financial issues such as the use of surplus fund balance to finance operations and changes to the service levels provided to residents. It is important that the Board

² Allocated as follows: \$406,951 to the general fund, \$75,904 to the fire protection district, \$61,814 to the ambulance district, and \$28,997 to the water fund

³ Refer to the Town-Wide General Fund section for further information.

monitor and update any long-term financial plan on an ongoing basis to provide a framework for preparing budgets and to ensure that decisions are guided by the most accurate and current information available.

The Board has not adopted or developed a written multi-year financial plan. Such a plan would be a useful tool for the Board to identify, prioritize, and strategically address future financial issues.

Recommendations

1. The Board should continue to closely monitor the Town's financial operations and take appropriate actions to maintain the Town's financial stability.
2. The Board should ensure that the water fund budget has sufficient revenues to fund appropriations and eliminate its accumulated deficit.
3. The Board should develop comprehensive multi-year 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.

SUPERVISOR
JOHN E. LAWLER

TOWN CLERK
DARLENE A. DZIARCAK



TOWN BOARD
ELIZABETH M. CALLAGHAN
DAVID F. BALL
LAURIE A. MARBLE
JAMES E. BOUDREAU

TOWN OF WATERFORD

TOWN HALL
65 Broad Street • Waterford, NY 12188

August 14, 2012

Jeffrey P. Leonard
Chief Examiner
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801
VIA email/ standard mail

Dear Mr. Jeffrey Leonard:

Town of Waterford
Response to the draft Report of Examination

The Office of the State Comptroller Division of Local Government and School Accountability (Comptroller's Office) recently completed an examination of the financial condition of the Town of Waterford for the period of 1/1/2010 – 12/19/2011. As a result of that examination, the Comptroller's Office has issued the accompanying draft report including three recommendations of that examination.

The Town of Waterford appreciated the opportunity to respond to the three recommendations contained in the report.

Recommendation #1

The Board should closely continue to monitor the Town's financial operations and take appropriate actions to maintain the Town's financial stability.

Response:

We agree with this recommendation. As the examination verified, the Town Board has closely monitored the financial operations of the Town and will continue to do so. The Board receives comprehensive monthly financial reports that monitor actual to budget results and will continue to work closely with the Supervisor and Budget Officer to monitor the financial condition of the Town, including budget variances, cash flow and internal control policies.

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Recommendation # 2

The Board should ensure that the water fund budget has sufficient revenues to fund the appropriations and eliminate its accumulated deficit.

Response:

We agree with this recommendation. The slight 2011 year end deficit of \$759 is the result of issuing expenses for BANs issued to fund expenses incurred as a result of tax certiorari settlements. The \$759 deficit will be allocated to the Waterford Water Authority and the deficit will be eliminated by year end 2012.

Recommendation # 3

The Board should develop comprehensive multiyear financial and capital plans to establish goals and objectives for funding long term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

Response:

While we agree with the conceptual validity of this recommendation, we question the practical benefit that we would derive versus the allocating dedicated but limited valuable resources to implement the recommendation. As a small town, we rely on a few highly competent individuals in our accounting and finance area. These individuals, as demonstrated by the results of this examination, provide outstanding support to the Town Board in all areas of accounting and finance, but we do have limited capacity in terms of increasing their workload without incurring substantial additional expenses to our tax payers.

Even more importantly, while the Town Board is responsible for the overall financial condition of the Town, critical and major factors that will impact the Town's financial condition are well beyond the ability of the Board to influence, let alone forecast.

For example, NY State mandates drive a substantial portion of our expense budget and are completely beyond the control of local government. The recently enacted "tax cap" also greatly reduces the Board's options in terms of increasing revenue. Therefore, we question how much benefit or validity a "long term" plan would provide in terms of improving the management of the Town's finances.

However, we do agree that it would be beneficial to create a long term financial "vision" for the Town that would identify and prioritize needed capital improvements and would also create a matrix of financial performance indicators (i.e. desired surplus as a percentage of budget) which would assist the board in prioritizing expense allocations and the need to adjust the revenue stream. The Town will move to create and implement such a plan as part of the 2013 budget cycle.

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On behalf of the Town of Waterford, I would like to thank the Comptroller's Office for the professionalism and civility extended to us during this examination process. We found your staff to be professional, cordial and cooperative throughout the entire process. Most importantly, they exhibited a genuine interest in helping us to improve the financial management of the Town through their positive interaction with all of our employees.

Please free to contact myself or Town Budget Officer William Coutu if you should have any questions or desire any additional information regarding this response.

Sincerely Yours,

John E. Lawler

Town Supervisor
Town of Waterford

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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 condition, Supervisor's records, cash management, cash receipts and disbursements, justice court, sewer rents, Town Clerk revenues, building department revenues, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as Town policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the Town's financial transactions as recorded in its databases. Further, we reviewed the Town's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

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 on the reported objective and scope by selecting for audit the area most at risk. We selected financial condition for further audit testing. Our audit included various procedures to gather relevant evidence concerning our stated objective, as follows:

- We examined the 2010 budget and proposed 2011 budget, amended budgets, and prior years' operating results to project operating results for 2011. We used the adopted budgets, budget amendments as recorded in Board minutes, and actual results as recorded on the annual update document and in the Town's financial management system.
- We examined source documents including paid claims for tax certiorari actions, County sales tax projections, cable television franchise revenue documents, and the 2011 budget preparation book.
- We interviewed Town personnel where necessary and based our conclusions on our tests.

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 C

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