



Town of Clare

Fiscal Stress

Report of Examination

Period Covered:

January 1, 2012 — April 30, 2013

2013M-317



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2013

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 costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Clare, entitled Fiscal Stress. 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 Clare, located in St. Lawrence County, is approximately 96.6 square miles in size and serves about 105 residents. The elected five-member Town Board (Board) is the legislative body 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 officer. The Supervisor is also the chief fiscal officer and is responsible for the receipt, disbursement and custody of Town moneys; maintaining accounting records and providing financial reports. The Supervisor appointed a budget officer who also serves as the Town's bookkeeper.

The Town's general fund budgeted appropriations for 2013 were approximately \$136,000 and \$173,000 for the highway fund, funded primarily with real property taxes, a snow removal contract and State aid. The Town provides services for its residents, including road maintenance, snow removal, fire protection and general government support.

Fiscal stress is a judgment about the financial condition of an individual entity that must take into consideration the entity's unique circumstances, but can be generally defined as a local government's or school district's inability to generate enough revenues within its current fiscal period to meet its expenditures (budget solvency). The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments (counties, cities, towns and villages) and school districts based on both financial and environmental indicators to determine if these entities are in or nearing fiscal stress. The Town has been classified as susceptible to fiscal stress.

Objective

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

- Does the Board effectively monitor budgets and estimate appropriated fund balance as a financing source when adopting budgets?

Scope and Methodology

We examined the Town's financial condition for the period January 1, 2012, to April 30, 2013. However, we extended our review of financial trends back to 2010.

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 A of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials. Town officials were also given an opportunity to respond within 30 days in writing to our findings and recommendations. Town officials did not submit a written response within this time frame.

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.

Fiscal Stress

The Board is responsible for making sound financial decisions that are in the best interest of the Town and of the taxpayers who fund its operations. It is essential that the Board adopt structurally balanced budgets for all of its operating funds to provide recurring revenues to finance recurring expenditures. Once the budget has been adopted, the Board should monitor year-to-date revenues and expenditures against corresponding budget estimates to ensure corrective action or budget amendments are implemented before financial condition is negatively affected. As part of the budget process, the budget officer should develop a reasonable estimate of the fund balance that will be available at the end of the current fiscal year, so the Board can determine the proper amount of fund balance to appropriate as a financing source to offset the ensuing year's tax levy and the amount of unexpended surplus funds¹ to retain for future use. To guide in this process, it is important for the Board to adopt a policy that addresses the appropriate level of unexpended surplus funds to be maintained.²

The Board did not adopt a policy or method to determine the amount of unexpended surplus funds to maintain. In addition, the bookkeeper/budget officer did not establish procedures to reasonably estimate the amount of fund balance that will be available at year end. As a result, the Board has heavily relied on appropriated fund balance as a financing source in the annual budgets, and in some years, it appropriated more fund balance than was actually available. This has led to a significant reduction in the Town's fund balances from the beginning of 2010 to the end of 2012. As demonstrated in the following tables, fund balance in the general fund declined 79 percent (from \$38,912 to \$8,331), and the highway fund balance declined 89 percent (from \$38,139 to \$4,236), during this period.

¹ 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).

² When determining the level of unexpended surplus funds to maintain, the Board should consider factors such as timing of receipts and disbursements, volatility of revenues and expenditures, contingency appropriations and reserves established for various purposes.

Table 1: General Fund

	2010	2011	2012
Beginning Fund Balance	\$38,912	\$23,041	\$27,355
Operating Surplus/(Deficit)	(\$15,871)	\$4,314	(\$19,024) ^a
Year-End Fund Balance	\$23,041	\$27,355	\$8,331
Less: Appropriated Fund Balance	\$20,000	\$28,000	\$28,000
Unexpended Surplus Funds	\$3,041	(\$645)	(\$19,669)

^a Adjusted for \$6,500 in fire protection district taxes and \$1,704 in stumpage taxes that were improperly accounted for and included in the general fund cash.

Table 2: Highway Fund

	2010	2011	2012
Beginning Fund Balance	\$38,139	\$36,684	\$1,762
Operating Surplus/(Deficit)	(\$1,455)	(\$34,922)	\$2,474
Year-End Fund Balance	\$36,684	\$1,762	\$4,236
Less: Appropriated Fund Balance	\$30,000	\$15,000	\$0
Unexpended Surplus Funds	\$6,684	(\$13,238)	\$4,236

As shown in Table 1, the Board appropriated a significant amount (\$20,000, or 87 percent) of its available general fund balance at the end of 2010 to finance the 2011 budget. In addition, when adopting the 2012 and 2013 budgets, the Board appropriated more general fund balance than was actually available resulting in budget deficits, going into the 2012 and 2013 fiscal years.

A similar trend occurred in the highway fund. As shown in Table 2, the Board appropriated \$30,000, or 82 percent of its available highway fund balance at the end of 2010 to help finance the 2011 budget. In addition, when adopting the 2012 budget, the Board appropriated more highway fund balance than was actually available resulting in a budget deficit going into the 2012 fiscal year.

Because of the Board's overreliance on fund balance as a financing source when adopting budgets, the general fund ended 2012 with an unexpended funds deficit of \$19,669 and the highway fund ended 2012 with unexpended surplus funds of only \$4,236, or 2.4 percent of the next year's budgeted appropriations. This left the general and highway funds with little cash on hand at the end of the year and very little financial cushion for managing unforeseen events.

Although we were told that the bookkeeper/budget officer prepares budgets without input from department heads, such as the Highway

Superintendent, we found that the total estimated revenues and appropriations in the 2010 to 2012 adopted budgets were generally reasonable during our audit period. To help the Board monitor the budget throughout the year, the bookkeeper/budget officer provides monthly budget status reports to the Board that include budget-to-actual comparisons by fund for total revenues and expenditures, and for individual revenue and expenditure accounts. Board members told us they review the reports and ask questions as needed, and we found the Board made periodic budget transfers between accounts.

However, we found no indication that the Board took action to modify the budgets once it was determined that the Town overestimated the amount of available fund balance. In fact, the Board did not take action to correct the \$13,238 budget deficit in the highway fund's 2012 budget until November 2012, when it transferred about \$20,000 from the general fund to fill the budget gap. This left the general fund in a weak financial position, and it did not have the fund balance necessary to finance the 2013 budget after making the transfers. Similarly, we found no indication that the Board modified the 2013 general fund budget to address the \$19,669³ budget deficit going into the 2013 fiscal year. In addition, based on our review of the 2013 revenue and appropriation estimates, they generally appear to be reasonable, except for the general and highway fund appropriation for New York State and Local Retirement System costs. The Town spent approximately 60 percent, or \$12,600, more than budgeted in the general and highway funds combined, and as of July 10, 2013, the Board has not modified the budget to provide sufficient appropriations for these accounts.

Town officials told us that the Board has relied on the use of fund balance to offset the amount to be raised by real property taxes. While a reduced tax levy benefits taxpayers in the short term, fund balance should not be depleted to the point that there is insufficient cash available for paying bills or managing unforeseen events. Because the Town has drawn down its unexpended surplus funds, the Board must be vigilant in monitoring year-to-date revenues and expenditures against corresponding budgetary estimates so it can take any necessary corrective action to prevent further fiscal decline. In addition, the bookkeeper/budget officer must develop realistic estimates of available fund balance at year end of the fiscal year. If there is not enough fund balance available as a financing source in the budget, the Board must replace these funds with other recurring revenues and/or cut costs to balance the budget.

³ According to the Town's records, the Board appropriated \$11,465 more than it had available. However, we found no indication the Board modified the budget to address this funding deficit.

Unless the Board takes the necessary steps to address the Town's fiscal stress and replenish its fund balances to a reasonable level, the Town's ability to provide basic services to its residents could be in jeopardy.

Recommendations

1. The Board should adopt a policy setting forth the reasonable amounts of unexpended surplus funds that the Town should maintain.
2. The bookkeeper/budget officer should develop procedures to reasonably estimate the amount of fund balance that will be available at year end.
3. The bookkeeper/budget officer should request and review budget estimates submitted by all administrative units/departments at the Town to assist in the preparation of the tentative budget presented to the Board for review.
4. The Board should appropriate only available fund balance to finance operations in succeeding years' budgets.
5. If the Board appropriates more fund balance than is available, it should modify the budget early in the next fiscal year to ensure that the budget is balanced.
6. The Board should review budget status reports and use them to monitor current year results against budget estimates throughout the year. The Board should take corrective action prior to accounts becoming over-expended.

APPENDIX A

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using the local government's annual update document⁴ and information from the United States Census Bureau, New York State Department of Labor and the New York State Education Department, among other sources. The Town has demonstrated signs of fiscal stress in several areas. Due in part to these fiscal stress indicators, we selected the Town for audit.

Our overall goal was to assess the Town's financial condition. To accomplish this, we performed the following audit procedures for the period January 1, 2012, to April 30, 2013. We extended our review of financial trends back to 2010:

- We interviewed Town officials to gain an understanding of the Town's budget and budget monitoring processes and the Town's financial situation.
- We reviewed and analyzed the Town's financial records and reports for all funds, including annual budgets, annual reports, bank statements, budget status reports and general ledgers.
- We analyzed the Town's overall fiscal health by reviewing fund balance trends and results of operations from 2010 to 2012. We also reviewed budget to actual comparisons for this period.
- We reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets.
- We reviewed the Town's results of current year operations through the end of our audit period to determine the impact of any significant unbudgeted revenues or expenditures on financial condition.

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.

⁴ Required to be submitted annually by the Town to the Office of the State Comptroller

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