



Town of Columbus Budget Development Practices

Report of Examination

Period Covered:

January 1, 2011 — August 1, 2012

2012M-225



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 Columbus, entitled Budget Development Practices. 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 the Supervisor and Board 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 Columbus (Town) is located in Chenango County. The Town has 975 residents and provides various services, including road maintenance, snow removal, fire protection and general government support. The Town's annual budget for the 2012 fiscal year is \$770,000, financed primarily by real property taxes and sales tax.

An elected five-member Town Board (Board), comprising the Town Supervisor (Supervisor) and four Council members, governs the Town. The Supervisor serves as the Town's chief executive officer and chief fiscal officer. The Board along with the Supervisor is responsible for developing and adopting a balanced and realistic budget each year.

Objective

The objective of our audit was to assess the financial condition of the Town's general and highway funds to determine if the budgets were reasonable. Our audit addressed the following related question:

- Did the Board adopt reasonable budgets?

Scope and Methodology

We examined the Town's financial operations, including various accounting records and reports for the period January 1, 2011 to August 1, 2012. We extended our scope back to January 1, 2007 to provide historical perspective regarding the Town's financial condition and accounting records and reviewed the 2013 adopted budgets to assess trends.

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 findings and recommendations and indicated they would take corrective action. Appendix B contains our comments on issues raised in the Town's response.

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 Town Board to make this plan available for public review in the Town Clerk's office.

Budget Development Practices

While the Supervisor, as the Town’s budget officer, leads the annual budget development process, the Board has the authority and responsibility to adopt realistic, structurally balanced budgets and to monitor the budget continually. A good annual budget begins with sound estimates and well-supported budgetary assumptions. Spending levels and financial resources must be accurately gauged during budget preparation to ensure that planned services are properly funded. To that end, the Board should avail themselves of as much pertinent information as possible. The budget officer should work closely with the Board and department heads to develop these estimates based on current needs and past revenues and expenditures.

The Board and Supervisor did not develop sound budgets based on actual current needs and/or past activity. Instead, the Board’s adopted budgets included revenue estimates that were consistently less than revenues actually received, and expenditure estimates that were consistently less than actually spent. Even though the over-expenditures largely offset the excess revenue, the Board raised taxes and issued debt that was largely unnecessary. While the Board continued to under-budget revenues in fiscal year 2012, its adopted budget for 2013 is more closely based on realistic revenue and expenditure figures that take actual past revenues and expenditures into account.

Revenue Estimates – Between 2007 and 2011, total actual revenues for the combined general and highway funds exceeded budget estimates by an aggregate of over \$319,000.¹ For example, the Board’s estimate for sales tax was consistently underestimated, with an aggregate variance of nearly \$123,000.

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Total 2007-2011
Budget	\$104,945	\$122,320	\$146,570	\$178,953	\$166,935	\$719,723
Actual	\$161,917	\$188,294	\$199,319	\$186,498	\$211,375	\$947,403
Variance	\$56,972	\$65,974	\$52,749	\$7,545	\$44,440	\$227,680

¹ Excluding aid from the Federal Emergency Management Administration (FEMA), for which Town officials cannot budget. FEMA aid totaled \$445,125 for the 2007 through 2011 fiscal years.

Table 2: Revenues – Highway Fund (2007-2011)						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Total 2007-2011
Budget	\$295,975	\$322,150	\$415,400	\$409,810	\$470,450	\$1,913,785
Actual	\$354,933	\$334,714	\$386,762	\$408,150	\$520,716	\$2,005,275
Variance	\$58,958	\$12,564	(\$28,638)	(\$1,660)	\$50,266	\$91,490

Expenditure Estimates – Similar to the Board’s estimated revenues, between 2007 and 2011, actual expenditures exceeded budget estimates by over \$325,000;² four budgeted line items³ were each more than \$50,000 over their estimates.

Table 3: Expenditures – General Fund (2007-2011)						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Total 2007-2011
Budget	\$131,145	\$221,920	\$190,820	\$228,750	\$177,485	\$950,120
Actual	\$123,597	\$236,923	\$240,967	\$236,930	\$169,530	\$1,007,947
Variance	\$7,548	(\$15,003)	(\$50,147)	(\$8,180)	\$7,955	(\$57,827)

Table 4: Expenditures – Highway Fund (2007-2011)						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Total 2007-2011
Budget	\$320,975	\$427,900	\$415,400	\$449,738	\$500,900	\$2,114,913
Actual	\$476,063	\$420,474	\$663,796	\$366,537	\$455,222	\$2,382,092
Variance	(\$155,088)	\$7,426	(\$248,396)	\$83,201	\$45,678	(\$267,179)

While the Town received revenues in excess of its budgeted estimates, it also spent money in excess of its estimated expenditures, thereby largely offsetting the excess revenue. Therefore, it does not appear that Town officials were deliberately attempting to accumulate unused public funds,⁴ but rather did not have a clear understanding of the availability of fund balance. However, because the Board underestimated revenues in preparing its budgets, it raised taxes to cover the cost of debt issuances – which in fact were largely unnecessary – to finance planned purchases of high-cost items and projects (such as two large equipment purchases and an addition to the business office building for a Town court). If the Board’s revenue estimates had been more realistic, the Town would not have needed to borrow money and incur the related interest costs.

² Excluding emergency disaster work for which Town officials did not budget, totaling \$352,198 for the 2007 through 2011 fiscal years

³ Health insurance, inter-fund transfers, transportation and debt service

⁴ The Town’s unassigned fund balance remaining at the end of each fiscal year, for the combined general and highway funds, fluctuated significantly, ranging from \$548,189 in 2007 to \$668,830 in 2011.

Town officials⁵ told us they reviewed, discussed, and adjusted each budget line prior to adopting the overall budget. However, given the significant variances between budgetary estimates and actual results, we question the basis and methods used for the estimates. None of the Town officials could provide us an explanation for the large variances.

Between 2007 and 2011, the Board adopted budgets that planned to spend an aggregate of \$230,000 of unrestricted, unappropriated surplus in the general fund. However, because of the underestimated revenues, Town officials in fact needed to appropriate only an aggregate of \$54,000. The Board adopted budgets that unnecessarily increased the real property tax rates for some years,⁶ without considering the appropriation of unrestricted fund balance to thereby lessen the tax burden placed on Town residents.

One reason for the tax levy increase in 2010 was to finance the addition of a courtroom to the Town business offices at a cost of \$35,000 to taxpayers. However, the Town had more than eight times this amount in available fund surplus to pay for the addition.⁷ Further, in the 2007 and 2012 fiscal years the Board authorized the issuance of debt totaling \$100,000 to purchase two trucks for the Highway Department. The Town also suffered damage from flooding and in 2008 issued debt totaling \$280,000, with a term of one year, to repair roads damaged in the flood even though the Town anticipated receiving reimbursements from FEMA to finance those repairs. While we do not recommend that the Town deplete its available surplus to dangerous levels, a portion of surplus fund balance could have been used instead of issuing debt or increasing taxes.

Due to the Board's poor budgeting practices, the Town not only levied taxes that may not have been necessary but also issued debt costing taxpayers over \$19,000 in interest charges for expenditures that could have been afforded through available money.

Projected results of operations for fiscal year 2012 indicate that the Town's budgeting practices remain poor. We project an increase of over \$35,000 in the general fund's fund balance and a decrease of over \$163,000 in the highway fund's fund balance. The Board under-budgeted revenues by \$27,960 and over-budgeted expenditures by over \$30,000 in the general fund. In the highway fund, the Board

⁵ We spoke with past and present Supervisors, the Town Clerk, and three Council members.

⁶ The Town's tax rates increased 32 percent in the general fund and 9 percent in the highway fund from 2007 to 2012.

⁷ The cost of the courtroom addition was estimated at \$65,000 for the project, with \$30,000 received from a grant and \$35,000 to be raised in taxes. At the end of the 2009 fiscal year, the Town's total unrestricted, unappropriated surplus was \$324,259.

under-budgeted revenues by over \$15,000 and expenditures by over \$117,000.⁸

Although the 2013 fiscal year budgeted revenues for the general and highway funds are still less than what was actually received in 2012, the Board's adopted budget is more closely based on realistic revenue and expenditure figures that take actual past revenues and expenditures into account. For example, the sales tax revenue estimate in the general fund is only \$12,000 under-budgeted in 2013, whereas it has been estimated at over \$30,000 less than actual revenues in the last two budgets. Budgeted expenditures are also greater for both the general and highway funds this year, consistent with continuing increases in salaries and the general costs of goods and services. Furthermore, the Board intends to finance planned improvements to two Town buildings, estimated at over \$66,000, by using fund balance rather than borrowing these moneys.

By improving its budgeting practices, the Board will be better positioned to reduce the Town's reliance on increased tax levies and borrowed money.

Recommendations

1. The Board should continue to consider historical trends in developing budget estimates that are consistent with the Town's actual revenues and expenditures.
2. In conjunction with realistic budgeting practices, the Board should develop a plan to reduce the amount of unrestricted, unappropriated surplus funds in a manner that benefits Town taxpayers. Such uses could include, but are not limited to:
 - Using surplus as a financing source
 - Funding reserves to finance future capital needs
 - Paying off debt
 - Funding one-time expenditures.

⁸ The Board under-budgeted capital projects by over \$98,000 in the highway fund.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF COLUMBUS

4340 State Highway 80
Sherburne, New York, 13460
607-847-6876

Thomas P. Grace, Supervisor

Feb. 14, 2013

Office of New York State Comptroller

The Town of Columbus would like to thank the State Comptroller's Office for auditing our financial records and practices and recommending ways to improve them. We would also like to note that while the Town has kept a healthy fund balance, we face considerable costs in maintaining our infrastructure.

This fund balance may now allow us to proceed with projects to restore our Town Hall and repair our Town Garage and Offices without unduly burdening property taxpayers. The Town Board already has taken steps to address these problems, engaging a contractor to estimate the cost of the Town Hall's repair (\$145,000 to \$160,000).

Anticipating that this renovation will begin in the next construction season, the Town Board has increased that budget line from \$7,500 in 2012 to \$50,000 in 2013 and scheduled its regular monthly meetings to be held in the Town Courtroom.

The Town's fund balance also will help cushion the high cost of purchasing highway equipment at a time when plow trucks cost more than \$200,000. In the 2013 budget, we allotted up to \$175,000 to purchase an excavator to assure that our equipment is able to address the Town's needs.

While the audit is a useful tool, we have concerns with some of the findings and would like to respond to these concerns as will be addressed in the following section: (The supervisor has been in office only in 2012 and 2013, and attests to none of the information in the remainder of this response letter with the exception of the final paragraph.)

Budgeting practices for many years prior to the audit period developed the unappropriated surplus and as a policy, budgeting practices for the board of the audit period were the same as those of many years prior thereby setting precedent.

In the Budget Development practices section it states that the Town Board under estimated revenues and over-estimated expenditures as a negative method of budgeting. The Town Board members involved in local government at that time felt this approach was a conservative way of budgeting and what is fiscally prudent management.

The audit period was during a time of declining economy; for example housing values and consumer purchases along with interest rates were all tenuous at best. As such the Town Board felt they were making conservative estimates on potential revenue such as sales tax, mortgage tax and interest since we felt they would all decline.

Under the Expenditure Estimates section it states that debt was issued unnecessarily, yet at the time of both truck purchases, the Town Board did not feel the highway fund's unappropriated surplus had a sufficient amount to cover the cost of the equipment and leave a reasonable amount for emergencies.

There is a section of the report that states none of the officials interviewed "could provide us an explanation for the large variances". At least two of the Town Board members were never directly asked why there was such a large variation. Countless hours of time were always put into the budgeting process, which can be attested to by anyone directly involved with the process since 2006 along with many of the public who attended meetings. Throughout the process, both revenues and expenditures were analyzed carefully prior to finalizing the budget.

See
Note 1
Page 13

Each year, the unspent monies from the prior tax year were put into the budget to reduce the upcoming year's tax burden. Also, in the past, we have used reserves to cover non-recurring expenses in order to minimize tax increases. These all have been listed in the budget as "A599 Appropriated Fund Surplus".

See
Note 2
Page 13

During 2009 the Appropriated Fund Surplus budgeted was \$42,250. The tax revaluation expense for that year was \$32,250. The tax revaluation expense was paid for out of appropriated fund surplus.

In the case of the court addition, taxes were in fact not raised for the construction as alleged in the audit. In 2010, the cost for the court addition was \$35,000. It was funded out of Appropriated Fund Surplus, which was budgeted at \$49,797. Prior to awarding the bid it was agreed upon that all monies not received from the grant were to come from surplus. This should be noted in minutes as it was discussed frequently as the board agreed that it was the only way the project would be done. Additionally it should be noted the courtroom expenditure (pg. 7) was part of the 2010, not 2011 budget (as was stated in the draft audit).

See
Note 2
Page 13

See
Note 3
Page 13

In regards to the debt for the \$280,000 FEMA disaster, at the time the Town Board was told repayment could be lengthy and uncertain. As it took in excess of one year to be repaid and bond rates were low, this financial decision seemed prudent. Without redeeming CD's early and suffering a penalty, only a small portion of this amount could have been financed.

The highway committee had developed a five year replacement plan for equipment, but had not specifically budgeted a means to fund these purchases. The intention was to finance the majority

of the purchases from surplus funds when possible. Every budget took any remaining unspent funds from the prior year, and put them into the next year's budget as a revenue item thereby not intending to increase surplus.

One of the goals of the Town Board during the audit period was to keep the fund surplus at the level it inherited from past boards, based on taxpayer input and inquiries. Much of the highway equipment in use at the beginning of this period was (and still is) in need of replacement and as such, depleting the highway reserves too quickly seemed unwise. From the general fund, as previously mentioned, the town has a number of major issues that need to be addressed which will require capital, the largest being land and structures. The current plot of land has become stretched and with environmental demands and salt storage requirements, the town will need to make some changes. In addition, The Town Board is aware the highway garage is in need of expansion and improvement. With relation to structures, we have a town hall that is in need of major repair, and again as such the Town Board has been reluctant to decrease surplus too quickly. In recognition of the high general surplus, on two occasions (a truck purchase and a pickup) monies from the general fund surplus were used to fund highway needs.

While based on the audit, budgeting practices clearly could have been better, given the circumstances of needing to upgrade equipment and facilities; the Town Board feels they made the best possible decisions for the sound financial future of the town. For the future, we need to take unappropriated surplus and assign it to specific categories to meet town needs. Specific training from the OSC would be helpful in continuing to improve our budgeting process.

See
Note 4
Page 13

In conclusion, the Town Board intends to comply with the Comptroller's advice on using unappropriated funds rather than borrowing when appropriate, to pay off debts when this will save interest payments, and to comply with the Comptroller recommendations. As the report notes, the Town Board has already taken steps to improve estimates and the 2013 budget includes more than \$150,000 in unappropriated reserves, allowing us to increase appropriations while sparing taxpayers this year.

Sincerely,

Thomas P. Grace
Town Supervisor

Susan LaFever
Town Council

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

During our audit we reached out to all the Board members and officials, including the past Supervisor. We spoke with three of the four Board members, the current and past Supervisors, and the Town Clerk. We discussed the budget process at length with each of these officials and asked numerous questions on how various line items were determined, including those with significant budget-to-actual variances.

Note 2

While we recognize that the Town budgets included the use of unspent moneys, the Town continually generated more revenues than the budget estimates. Therefore, the Town did not use the appropriated fund surplus as set forth in its budgets, resulting in the continual increase of the tax levy and fund balance surplus.

Note 3

The draft report in fact cites 2010 as the year of the tax levy increase to finance the courtroom addition.

Note 4

The OSC website, <http://www.osc.state.ny.us/localgov/index.htm>, describes available training and publications under "Resources for Local Government Officials." The site provides online links to modules of the Local Government Management Guide which includes technical information as well as suggested practices for local government management. You may also contact our Local Government Training unit by email at localtraining@osc.state.ny.us or by phone at (518) 473-0005.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine financial information to ensure that the Board was developing and adopting realistic budgets. To accomplish the objective of this audit and obtain valid evidence, our audit procedures included the following:

- We conducted in-person interviews with past and present Town officials and staff to gain an understanding of the procedures followed for the development and adoption of the Town's annual budget.
- We reviewed Board minutes for the period January 1, 2007 through August 1, 2012 to obtain information regarding Board-approved large purchases or capital improvements. We then reviewed records and documentation of financing these purchases and improvements to determine the cost to taxpayers.
- We obtained adopted budgets for fiscal years 2007 through 2013 and compared budgeted revenues and expenditures to actual revenues and expenditures for the general and highway funds to determine if the Board adopted realistic budgets.
- We calculated what the general and highway unassigned fund balances were for fiscal years 2007 through 2011 to determine what percentage of the ensuing years' appropriations the unassigned fund balances represented.
- We obtained real property tax rates for fiscal years 2007 through 2011 to determine if tax rates increased or decreased over these years and what the total percentage change was.
- We obtained budget-to-actual reports for both the general and highway funds, calculated the projected ending revenues and expenditures, and then compared those figures to budgeted figures to assess the Board's budgeting practices for fiscal year ending 2012.
- Using projected 2012 ending revenues and expenditures for both the general and highway funds, we calculated what the ending fund balances would be for both funds.
- We compared projected fiscal year ending 12/31/12 revenues and expenditures to 2013 adopted budget figures to assess if the Board has improved their 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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