



# Town of Genesee Falls

## Fiscal Stress

### Report of Examination

Period Covered:

January 1, 2011 — May 7, 2013

2013M-146



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

June 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 Town 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 Genesee Falls, 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 Genesee Falls (Town) is located in Wyoming County, is approximately 16 square miles in size, and serves approximately 440 residents. The elected Town Board (Board) is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations and for 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, as such, is responsible for the receipt, disbursement, and custody of Town moneys, for maintaining accounting records, and for providing financial reports. Although the Board is primarily responsible for the effectiveness and proper functioning of internal controls, the Supervisor and department heads share this responsibility. The Highway Department is supervised by an elected Highway Superintendent. As of April 2013, the Town had two full-time Highway employees.

The Town's general and highway funds' budgeted appropriations for the 2013 fiscal year totaled approximately \$165,824 and \$312,972, respectively. Appropriations were 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, street lighting, 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 sufficient revenues within a fiscal year to meet 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 in moderate fiscal stress.

## Objective

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

- Do Town officials adequately monitor the Town's financial operations to ensure fiscal stability?

## Scope and Methodology

We examined the Town's financial condition for the period January 1, 2011, through May 7, 2013.

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 findings and indicated that 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.

## Fiscal Stress

It is essential that the Board adopt structurally balanced budgets for all of its operating funds so that recurring revenues finance recurring expenditures and a reasonable fund balance is maintained. Once adopted, it is necessary to monitor the budget with actual operating results to prevent unplanned operating deficits. An unplanned operating deficit results from over-expended appropriations, receiving revenues in amounts less than budgeted, or a combination of the two. Recurring unplanned operating deficits usually indicate a failure to ensure that budgets are realistic and/or properly monitored. The Board should approve budgetary amendments to address revenue shortfalls or costs that are expected to exceed appropriations.

The highway fund's financial condition has diminished in recent years because of revenue shortfalls, and the Board allowed budgets to be over-expended. Specifically, the highway fund experienced unplanned operating deficits in 2011 and 2012 of \$49,263 and \$71,979, respectively. Consequently, the highway fund balance declined from \$83,179 at January 1, 2011, to a deficit of \$38,059 at December 31, 2012, as indicated in Table 1.

<b>Table 1: Highway Fund Results of Operations</b>		
<b>Fiscal Year</b>	<b>2011</b>	<b>2012</b>
Beginning Fund Balance	\$83,179	\$33,916
Revenues	\$338,258	\$325,243
Expenditures	\$387,521	\$397,222
Operating Surplus/ (Deficit)	(\$49,263)	(\$71,979)
Prior Period Adjustments	\$0	(\$4)
Year-End Unrestricted Unappropriated Fund Balance	\$33,916	(\$38,059) <sup>a</sup>
<sup>a)</sup> Difference due to \$4 miscellaneous adjustment in the equity section of the Annual Update Document		

In both the 2011 and 2012 fiscal years, highway fund appropriations were over-expended by \$72,474 and \$64,723, respectively. For example, in 2012, the appropriations for general repairs to Town roads were over-expended by \$101,738. The Highway Superintendent stated that he knowingly exceeded his budget due to needed resurfacing of Town roads and replacement of a loader. The Supervisor stated that she and the Board approved these expenditures. Intentionally over-

expending the budget not only violates Town Law, but compromises accountability to taxpayers.

Moreover, while the Supervisor provided monthly financial reports to the Board that included year-to-date budget vs. actual comparisons, the Board failed to take action to transfer available appropriations from other accounts to cover the over-expenditures or appropriate available fund balance. The Supervisor stated that she previously made annual budget amendments when she was closing the books and preparing the annual report. Currently, the Town's bookkeeping service makes budget amendments bi-annually; this timeframe is not sufficient because budget modifications must be approved by the Board prior to expenditures being charged to insufficiently-funded appropriation accounts.

In addition, the Town received only \$75,841 (69 percent) of the \$109,312 budgeted for intergovernmental revenue.<sup>1</sup> This revenue shortfall, coupled with the over-expenditure of highway appropriations, also caused a temporary cash flow deficiency for the Town.<sup>2</sup> At December 31, 2012, the reported cash balances in the highway and general funds were negative \$6,445 and negative \$13,984, respectively. The general fund cash balance was negative because it loaned cash to the highway fund in 2012. The outstanding loan balance was \$50,016 at December 31, 2012. The cash flow problems subsided in early 2013, when the Town received \$51,000 from the State for snow removal services performed in 2012 and began receiving the 2013 fiscal year real property tax levy. The highway fund repaid \$30,000 of the loan from the general fund in January 2013.

For the 2013 fiscal year, the Board adopted a more reasonable highway fund budget that decreased appropriations nearly \$20,000 and increased real property taxes by over \$12,000 from the 2012 fiscal year budget. It is encouraging that the Board has taken positive steps toward addressing the highway fund's fiscal stress.

The general fund currently had a positive fund balance of \$33,550 as of December 31, 2012. However, because the general fund is directly impacted by borrowings from the highway fund, it is even more important that the Board properly oversees fiscal operations to ensure the Town's financial stability. The failure to monitor the budget during the year can lead to unplanned operating deficits, which can quickly deplete unrestricted fund balance, leaving nothing to finance unanticipated costs or to help fund future budgets. To

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<sup>1</sup> The Town is paid by the State to clear snow and ice from State roads.

<sup>2</sup> The Town's aggregate cash position was a deficit of \$2,423 at December 31, 2012.

address these deficits and adopt a structurally balanced budget, the Board must increase revenues (e.g., property taxes) and/or decrease appropriations (e.g., services). Thus, monitoring the budget, preventing the over-expenditure of appropriations, and adopting timely budget amendments are critical functions to ensure fiscal stability.

## **Recommendations**

1. The Board should monitor the budget during the course of the year, prevent appropriations from being over-expended, and adopt timely budget amendments to address revenue shortfalls or costs that are expected to exceed existing appropriations.
2. The Board should implement a plan to eliminate the unrestricted fund balance deficit.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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

**Town of Genesee Falls**  
Jean M. Totslie, Supervisor  
6645 Church Street  
Portageville, New York 14536

*May 29, 2013*

*Office of the State Comptroller  
Robert Meller, Chief Examiner  
295 Main Street,  
Suite 1032  
Buffalo, New York 14203-2510*

*Re: Response to OSC Audit*

*The Town of Genesee Falls Officials reviewed the findings in the Draft Report of Examination. The Town Board, Highway Superintendent and Supervisor concur with the findings and recommendations.*

*Town Board*

*The Town Board will continue to monitor the budget during the course of the year and make budget amendments on a monthly basis to address expenditures and revenue shortfalls.*

*The Town Board will implement a plan to eliminate balance deficits when payments from New York State are not received on a timely basis.*

*Respectfully Submitted;*

*Jean M. Totslie*  
Genesee Falls Supervisor

## APPENDIX B

### 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 a local government's annual update document<sup>3</sup> and information from the United States Census Bureau, the 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, our initial assessment included a comprehensive review of the Town's financial condition.

To achieve our financial condition objective and obtain valid audit evidence, we performed the following audit procedures for the period January 1, 2011, through May 7, 2013:

- We interviewed Town officials to determine what processes were in place and gain an understanding of the Town's financial situation and budget.
- We reviewed and analyzed the Town's financial records and reports for all funds, including annual budgets, annual reports, bank statements, and general and subsidiary ledgers.

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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<sup>3</sup> Required to be submitted annually by each town to the Office of the State Comptroller

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**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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