



# Town of Mount Pleasant Financial Condition

## Report of Examination

Period Covered:

January 1, 2012 — August 13, 2013

2013M-303



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**

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 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 Town of Mount Pleasant, 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 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 Mount Pleasant (Town) is located in Westchester County, is approximately 26 square miles, and serves approximately 43,700 residents. The Town is governed by the Town Board (Board), which comprises four elected members and an elected Town Supervisor (Supervisor). The Board is the legislative body responsible for the overall management of the Town including oversight of the Town's operations and finances and adopting and monitoring the budget. The Supervisor serves as both chief executive officer and chief fiscal officer. The Supervisor is responsible for receiving, disbursing, and maintaining the custody of Town moneys, maintaining accounting records, and providing financial reports to the Board. The Supervisor is assisted by the Town Comptroller (Comptroller) with the financial duties.

As of August 2013, the Town had approximately 500 employees, including summer employees. The Town provides services to its residents including road maintenance, snow removal, street lighting, fire protection, and general government support. The Town's budgeted appropriations for all funds<sup>1</sup> were approximately \$39.9 million in 2012 and \$40.9 million in 2013. Budgeted appropriations for the general town-wide (TW) fund were approximately \$4.9 million in 2012 and \$5.0 million in 2013. Town operations are funded primarily with real property taxes, mortgage taxes, and user charges.

## Objective

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

- Do Board members adopt realistic budgets that are structurally balanced, and 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, 2012, to August 13, 2013. We expanded our scope back to 2008 to analyze the Town's fund balance, operating results, and financial 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 is included in Appendix B of this report.

<sup>1</sup> Expenditures are accounted for in the general town-wide, general town-outside-village, highway, special districts, and debt service funds.

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

## Financial Condition

A local government's financial condition reflects its ability to provide and finance services on a continuous basis. A local government is considered to have sound financial health when it can consistently generate sufficient revenues to finance anticipated expenditures, and can maintain sufficient cash flow to pay bills and other obligations when due, without relying on unexpended surplus fund<sup>2</sup> balances or short-term borrowings. The Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers who fund its operations. Maintaining a reasonable level of unexpended surplus fund balance is a key element in fiscal management and reduces the effect that unplanned operating deficits have on the Town's overall financial condition.

The Town's general TW fund balance has decreased by approximately \$2.4 million over the past five years, due primarily to the Board relying on fund balance as a financing source for operations. The Board did not adopt a policy, or ensure that procedures were in place, to govern the level of fund balance to be maintained. Furthermore, the Board's estimates of unexpended surplus fund balance to be appropriated in the budgets exceeded the amounts actually available; as a result, the Board did not adopt structurally balanced budgets.

### Fund Balance

A key measure of a Town's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. When maintained at a reasonable level, fund balance can alleviate cash flow problems, can help finance the next fiscal year's operations, or can be used to manage unexpected costs. An appropriation of fund balance is the use of unexpended resources from prior years to finance appropriations contained in the budget and is considered a "one shot" financing source. This can be an acceptable practice when a local government has accumulated an adequate level of surplus fund balance.

<sup>2</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balances 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).

The Town's general TW fund balance has decreased by approximately \$2.4 million over the past five years.<sup>3</sup> The general TW fund balance decreased from \$3.1 million at the close of 2008, to \$19,000 at the close of 2011. Although the ending fund balance in 2012 increased to \$743,890, the unexpended surplus fund balance declined to negative \$6,599<sup>4</sup> at the close of 2012. The decline resulted from the Town's planned operating deficits as depicted in Table 1.

<b>Table 1: Planned Deficits</b>					
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Actual Revenues	\$4,023,017	\$3,688,690	\$4,367,942	\$3,631,833	\$5,705,207
Actual Expenditures	\$5,546,284	\$5,173,221	\$5,006,713	\$4,596,644	\$4,980,174
Actual Operating Surplus/(Deficit)	(\$1,523,267)	(\$1,484,531)	(\$638,771)	(\$964,811)	\$725,033
Planned Use of Fund Balance	\$1,918,253	\$2,050,766	\$1,089,792	\$701,014	\$487,861

Over the last five years, the Board has routinely relied on fund balance as a financing source for operations. By continuously appropriating fund balance each year, the Board gradually depleted the unexpended surplus fund balance until it became deficit in 2011. In 2011, the deficit was higher than planned by \$263,797; this was primarily caused by an increase in uncollected taxes. The Comptroller stated that the Board has been appropriating fund balance in order to keep real property taxes low. While a low tax levy benefits taxpayers in the short term, fund balance should not be depleted to the point that there is insufficient cash available for managing unforeseen events.

## **Budgeting Policies**

The Board is responsible for adopting a policy to determine the appropriate amounts of fund balance to retain as a financial safeguard so that the Town has adequate unexpended surplus funds for unanticipated expenditures. An important aspect of budget preparation includes a reasonable estimate of the amount of fund balance that will be available at the end of the fiscal year.

The Board did not adopt a policy or ensure that procedures were in place to govern the level of fund balance to be maintained. Furthermore, the Board's estimates of unexpended surplus fund balance to be appropriated in the budgets exceeded the amounts actually available. Table 2 shows the amount of fund balance appropriated in the Town's budget for the general TW fund compared to the amount actually available as reported in the Town's annual update document<sup>5</sup> (AUD).

<sup>3</sup> Fund balance remained consistent and appears reasonable for all other major funds.

<sup>4</sup> After appropriated fund balance as shown in Table 2

<sup>5</sup> Required to be submitted annually by the Town to the Office of the State Comptroller

<b>Table 2: General Town-Wide Fund</b>					
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Year-End Fund Balance	\$3,106,956	\$1,622,433	\$983,655	\$18,843	\$743,877
Less: Reserved Fund Balance	\$357,276	\$362,904	\$443,347	\$496,540	\$608,550
Unexpended Surplus Funds	\$2,749,680	\$1,259,529	\$540,308	(\$477,697)	\$135,327
Less: Appropriated Fund Balance	\$2,050,766	\$1,089,792	\$701,014	\$487,861	\$141,926
Available Unexpended Surplus Funds	\$698,914	\$169,737	(\$160,706)	(\$965,558)	(\$6,599)

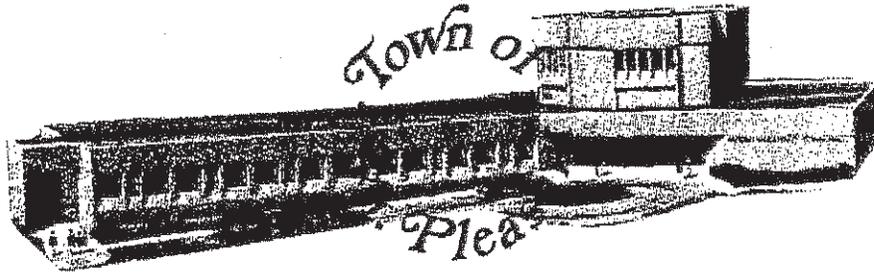
The Board appropriated more general TW fund balance than was actually available in 2010, 2011, and 2012. However, in 2012, the appropriated fund balance was not needed due to an operating surplus as shown in Table 1. The Board’s failure to estimate more accurate year-end fund balance and appropriate a reasonable amount for the ensuing year created budgets that were structurally unbalanced. Had the Board adopted a policy that provided guidance on an appropriate level of fund balance to be maintained in the Town’s funds, the general TW unexpended surplus fund would not have ended the 2011 fiscal year with a deficit.

### **Recommendations**

1. The Board should establish written policies and procedures governing the budgeting process, which include defining reasonable amounts of unexpended surplus funds that the Town should maintain.
2. The Board should assess the level of unexpended surplus fund balance in the general TW fund and take necessary action to ensure that fund balance levels are appropriate.
3. The Board and Town officials should closely monitor the Town’s use of unexpended surplus fund balance to ensure that action is taken, if necessary, to identify other funding sources that can be used if these moneys are no longer available to fund Town operations.
4. The Board should appropriate only available fund balance to finance operations in succeeding years’ budgets.

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

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



JOAN A. MAYBURY  
Supervisor

November 4, 2013

Ms. Tenneh Blamah  
Chief Examiner of Local Government  
and School Accountability  
Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, New York 12553

Re: Response to Town of Mt. Pleasant  
Fiscal Stress Report of Examination  
for the Period January 1, 2012 -  
August 13, 2013

Dear Chief Examiner Blamah:

The Office of the State Comptroller Division of Local Government and School Accountability completed an audit of one of the Town of Mt. Pleasant's operating funds. We extend our thanks and appreciation to [REDACTED] and [REDACTED]. Their professional demeanor and explanation of the process were exemplary.

The Town of Mt. Pleasant has three operating budgets: For 2013 - we are estimating increases in fund balance for the General Town Wide Budget (A Budget - \$949,479) the Town Outside the Villages Budget (B Budget - \$1,095,996) and the Highway Budget - (DB Budget - \$87,633). The General Town (A Budget) experienced difficulty as explained in your report. The Town had an increase in uncollected taxes, and a decrease in revenues (mortgage tax) that resulted in the need for strong corrective action. The strong corrective action taken included the Town relying on fund balance as a financing source for operations, a reduction in expenses by elimination of personnel (total of 12 layoffs or reductions to part time) and an increase in tax collections by instituting new procedures.

As a result of these actions, the Town is on solid financial ground today. Our 2014 budget reflects an estimated fund balance of \$1,558,715 in our A Budget, an estimated fund balance of \$1,973,974 in our B Budget, and an estimated fund balance of \$569,951 in our DB Budget.

ONE TOWN HALL PLAZA

VALHALLA, N.Y. 10595

PHONE: 914-742-2301

FAX: 914-769-3155

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Ms. Tenneh Blamah  
November 4, 2013  
Page Two

The Town Board will certainly take the recommendations cited in your report under consideration. Our goal is to continue to provide services without unnecessarily burdening our taxpayers. We certainly expect with the economy improving and some of the unfunded mandates levied against local government under tighter control, our financial future will continue to be bright.

Sincerely,

Joan A. Maybury

/mg

cc: Tina Peretti, Town Comptroller ✓

## 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 the local government's AUD 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.<sup>6</sup> Due to these fiscal stress indicators, we selected the Town for audit.

Our overall goal was to examine the Town's financial condition. To achieve our financial condition objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and employees to gain an understanding of Town operations.
- We obtained an understanding of the Town's internal control environment and specific controls that are significant to the Town's budget process.
- We reviewed AUD filings as submitted to the Office of the State Comptroller to determine if they were timely, accurate, and complete.
- We analyzed revenue and expenditure trends and budget-to-actual comparisons for the general TW fund for the years 2008 through 2012 to determine if the Town was consistently over or under budgeting and investigated significant variances.
- We evaluated the Town's operating results and resulting fund balance for the general TW fund for the audit period.
- We reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets.
- We reviewed 2013 budgeted-to-actual expenditures and revenues for the general TW fund as of August 13, 2013, to identify budget status.

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>6</sup> The Town was selected for audit due to concerns about its financial condition. More specifically, the fund balance for the general TW fund decreased from approximately \$3.1 million in 2008 to \$744,000 in 2012.

## APPENDIX C

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