



# Town of Westfield

## Financial Management

### Report of Examination

Period Covered:

January 1, 2010 — November 21, 2013

2013M-389



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**

May 2014

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 Westfield, entitled Financial Management. 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 Westfield (Town) is located in Chautauqua County and has a population of 4,896 residents. The Town provides various services to its residents, including road maintenance, snow removal, water, sewer and general government support. The Town's 2014 budgeted appropriations total nearly \$1.9 million, funded primarily by real property taxes, sales tax and State aid. The elected five-member Town Board (Board) is responsible for managing Town operations, including establishing internal controls over financial operations, maintaining sound financial condition and adopting a structurally balanced budget. The Town Supervisor (Supervisor) is a member of the Board and serves as the chief executive and chief fiscal officer. The Supervisor, as the Town's budget officer, prepares the tentative budget. The Board has an opportunity to modify the budget before adopting it.

## Objective

The objective of our audit was to review the Town's financial management of the highway town-outside-village fund. Our audit addressed the following related question:

- Is the Board appropriately adopting budgets and allocating revenues and expenditures in the highway town-outside-village fund?

## Scope and Methodology

We examined the financial management of the highway town-outside-village fund for the period January 1, 2010 through November 21, 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 is included in Appendix B of this report.

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

## Financial Management

The major areas of expenditures for town highway funds are repairs and improvements, bridges, machinery, as well as snow and miscellaneous. For towns with villages, such as Westfield, Highway Law requires that expenditures for repairs and improvements<sup>1</sup> be financed by the area outside the village and bridges be financed on a town-wide basis. Expenditures for machinery, snow and miscellaneous may be financed by the area outside the village, if the town board so elects. Therefore, a town with a village must maintain two highway funds, town-wide and town-outside-village. In addition, Tax Law provides that sales and use tax distributions from a county must be allocated to the area outside the Village in instances where both a town and a village receive sales and use tax distributions directly from a county and real property taxes in the town area outside the village have not been reduced to zero.

The purpose for maintaining separate town-wide and town-outside-village funds is to account for transactions which are required, by law, to be included in those respective funds. Accordingly, the Board and Supervisor must budget and account for transactions in the correct fund, in accordance with generally accepted accounting principles, and statutes requiring the segregation of town-wide and town-outside-village resources.

For the last three completed fiscal years, the Board adopted budgets that inappropriately allocated \$223,080, including State retirement contributions and medical insurance costs totaling \$134,475, to the highway town-outside-village fund and sales and use tax revenues totaling \$88,605 to the general town-wide fund. This caused an inequity in favor of the taxpayers that reside in the Village of Westfield (Village) at the expense of those taxpayers that reside outside the Village. Town officials have properly allocated sales and use taxes in the 2013 and 2014 budgets.

Employee Benefits — Town officials have a responsibility to taxpayers to ensure that their tax burden is no greater than necessary. Employee benefits should be allocated to the Town's operating funds based on actual costs attributable to those funds to prevent inequities between Town taxpayers residing within and outside the Village.

All of the costs for highway employees' State retirement contributions and medical insurance costs were budgeted for and paid from the highway town-outside-village fund, even though an average of 61

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<sup>1</sup> Including sluices, culverts and bridges having a span of less than five feet

percent of the employees' personal service costs were attributable to town-wide highway functions based on the type of work performed. Our analysis of the last three completed fiscal years (2010 through 2012) noted that the Town improperly allocated approximately \$134,000 in State retirement contributions and medical insurance costs to the highway town-outside-village fund rather than the highway town-wide fund. Because these funds do not share the same tax base, town-outside-village taxpayers are paying a larger-than-appropriate share of the tax burden as a result of this misallocation of employee benefits.

Town officials stated that they have budgeted for employee expenses in this manner because Village residents are already paying these benefits for employees of the Village. Town employee benefits should be allocated in the same manner as personal service costs.

Sales Tax – Tax Law authorizes counties to voluntarily share sales and use tax revenues with certain local governments. When counties distribute sales and use tax revenues, the local governments must appropriately budget and account for those revenues. When a town includes a village, the village can elect to receive a share of the revenues allocated to the town. When a town and a village within the town both receive sales tax revenue from the county, the town must budget and record the sales tax revenue in the town-outside-village funds, unless real property taxes in those funds have been reduced to zero.

Both the Town and the Village receive sales and use tax distributions from Chautauqua County. However, since at least 2010, the Town has incorrectly budgeted and accounted for sales and use tax revenues totaling \$88,605 in the general town-wide fund, even though real property taxes were still being raised in the town-outside-village funds. Consequently, the revenues were not credited to the highway town-outside-village fund where they could have been used to reduce real property taxes.

Because the Town's method of allocating sales and use taxes is not in compliance with statute, inequities have occurred between the two tax bases. In effect, Town taxpayers residing in the Village have received the benefit of sales and use tax revenues twice (from the Village as well as the Town) where the benefit should have been received by only those taxpayers residing outside the Village because their Town property taxes had not been reduced to zero. We made Town officials aware of this during our field work and they have addressed this in adopting the 2014 budget by not including sales taxes as a resource in the town-wide funds. They also did not include sales tax as a resource in the town-wide funds' 2013 budgets.

## **Recommendations**

1. The Board should adopt budgets and allocate State retirement contributions and medical insurance costs between the highway town-wide and highway town-outside-village funds based on personal service costs.
2. The Board should continue to budget and account for all sales and use tax revenues in the town-outside-village funds, until real property taxes in those funds are reduced to zero, in accordance with statute.
3. The Supervisor should correct the accounting records in the highway town-outside-village fund and the town-wide funds to properly reflect the improper allocation of \$223,080 in State retirement contributions, medical insurance costs and sales tax revenue during 2010 through 2012.
4. The Supervisor should consider analyzing fiscal year data prior to our audit period to determine the extent to which similar inequities occurred due to the improper budgeting and accounting for sales and use tax revenues, State retirement contributions and medical insurance costs. The Supervisor should record necessary adjustments to the unexpended surplus of the affected funds.

## **APPENDIX A**

### **RESPONSE FROM TOWN OFFICIALS**

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

*Westfield, New York*  
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TOWN OF WESTFIELD

April 24, 2014

Office of the State Comptroller  
Buffalo Regional Office  
Robert Meller  
295 Main St, Suite 1032  
Buffalo, NY 14203-2510

Dear Mr. Meller:

Please be advised that the Town of Westfield received a copy of the draft audit report "Fiscal Management", 2013M-389 on March 27, 2014. The Town Supervisor and the Town Board understand that the Comptroller's top priority is to establish and maintain a strong partnership between its office and local governments of the State of New York. The Board realizes your primary focus and the objective of this partnership is to identify areas where local governments can improve their fiscal operations and provide recommendations that will assist them in making those improvements.

The Town Board has worked diligently over the past several years to reduce the property tax burden on our citizens during these difficult financial times when our region of the state has been particularly hard hit with employment and population losses. We have actively pursued and received Federal and State funding for several infrastructure projects as well as improvements to Town properties,, roads, buildings, equipment and harbor facilities . In the face of increasing expenses and declining revenues, we are looking for new ways to be more efficient and maintain the fiscal health of our community.

We appreciate the professional expertise of your auditors and their willingness to be of assistance. They have made recommendations that will bring us into compliance with relevant NY State statutes. The board will implement the first recommendation in the 2015 Budget. The Board was made aware of the second recommendation and made adjustments to the 2013 and 2014 Budgets to reflect this requirement and will make fund adjustments accordingly.

The Board will address the recommendations in the CAP taking into consideration the choices in the allocation of funds provided in the applicable statutes as well as taking into consideration the tax cap and the overall impact on the taxpayers and the fiscal health of the Town. We remain committed to our joint goal of efficient and effective use of limited resources for the benefit of all of our citizens and are appreciative of your help in this challenging financial environment.

Sincerely,

Martha R. Bills, Town Supervisor

## 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 oversight, cash receipts and disbursements, purchasing and payroll and personal services.

During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as Board minutes and financial records and reports. 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 or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected budgeting and allocation of revenues and expenditures in the highway town-outside-village fund for further audit testing.

The objective of our audit was to review the financial management of the highway town-outside-village fund for the period January 1, 2010 through November 21, 2013. To achieve the objective and obtain valid audit evidence, we performed the following audit procedures:

- Reviewed significant policies, procedures and laws relating to our audit objective.
- Interviewed appropriate Town officials,
- Reviewed budgeting practices for the highway town-outside-village fund, and
- Analyzed financial condition and fund balance appropriations for our audit period.

We conducted this performance audit in accordance with 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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