



# Town of Elmira Financial Condition

## Report of Examination

Period Covered:

January 1, 2012 - August 12, 2015

2015M-226



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**

January 2016

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 Elmira, 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 New York State 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*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Town of Elmira (Town) is located in Chemung County (County), includes the Village of Elmira Heights (Village) within its boundaries and serves 6,935 residents. The Town is governed by an elected Town Board (Board) composed of a Supervisor and four Board members. The Board is responsible for the general management and control of the Town's financial operations and for maintaining a sound financial position. The Supervisor is the chief executive officer, chief fiscal officer and budget officer and is responsible for maintaining the accounting records and preparing financial reports. During 2014, the Supervisor delegated some of these duties to a bookkeeper.<sup>1</sup>

The Town provides various services to its residents, including street maintenance, snow removal, police, recreation, lighting and general government administration. The Town's budgeted appropriations for 2015 were approximately \$3.63 million, funded primarily with real property tax, sales tax and State aid. Town-wide (TW) funds encompass the entire Town, including the Village. Town-outside-village (TOV) funds encompass only the portion of the Town that lies outside of the Village.

#### **Scope and Objective**

The objective of our audit was to review the Town's financial condition for the period January 1, 2012 through August 12, 2015. Our audit addressed the following related question:

- Did Town officials effectively manage the Town's financial operations to ensure fiscal stability?

#### **Audit Results**

While the Board has taken steps to reduce excessive fund balance in the TOV funds, Town officials need to improve their oversight and planning to ensure the Town's fiscal stability. Town officials have not developed a multiyear financial plan. Such a plan would have allowed them to address issues including declining fund balances in the TW general and traffic district funds, a change in the County's method of sharing tax revenues, correcting erroneous methods in the way the Town allocated sales tax revenue and inadequate cash flows in several funds.

The Board has implemented its goal to reduce TOV excessive fund balance amounts since 2012. The Town's total fund balance for all funds declined by 35 percent, from \$2,563,951 as of January 1, 2012 to \$1,658,876 as of December 31, 2014. The Town's ending 2012 fund balance was 62 percent of the 2013 budgeted appropriations, while the 2014 ending fund balance was 46 percent of the 2015

<sup>1</sup> The Supervisor's former bookkeeper left in July 2014 and a part-time bookkeeper was hired and worked until January 2015.

budgeted appropriations. When developing the 2015 budgets, the Board continued to appropriate fund balance totaling \$567,225 (34 percent of total fund balance), which was significantly more than any of the previous three years. The Town's total unrestricted fund balance remains high. However, going forward, the Board must monitor the amounts appropriated so that fund balance does not get depleted.

As of December 31, 2014, due to accounting errors, the TW general fund had a fund balance deficit of \$38,957. The traffic district fund also had a fund balance deficit of \$44,073, due to overreliance on fund balance as a financing source. Both funds will likely experience additional operating deficits in 2015. The Board has not developed adequate plans to improve either fund's financial condition.

Since at least 2012, the Town has incorrectly transferred sales and use tax revenues totaling \$351,726 (6 percent of TOV revenues) from the TOV general fund to the TW general fund, resulting in inequities between the two tax bases. The 2015 budget also planned for an additional \$108,000 (7 percent of TOV revenues) to be incorrectly transferred from the TOV general fund to the TW general fund.

The Board did not receive regular reports of cash flow or cash balances by fund, so it was unable to properly monitor cash flow. As of the end of 2014, the TW general, capital projects, fire protection, traffic district and park funds used a total of \$1.3 million in cash from other funds to pay their financial obligations. The TW general, capital projects, fire protection and traffic district funds ended the year with insufficient cash assets to pay back the liabilities as required. As of December 31, 2014, the Town's combined funds had approximately \$1.7 million in cash, which was 45 percent of appropriations. Town officials must carefully monitor interfund advances so as not to compromise the Town's financial condition.

### **Comments of Local Officials**

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 have begun to initiate corrective action.

# Introduction

## Background

The Town of Elmira (Town) is located in Chemung County (County), includes the Village of Elmira Heights (Village) within its boundaries and serves 6,935 residents. The Town is governed by an elected Town Board (Board) composed of a Supervisor and four Board members. The Board is responsible for the general management and control of the Town's financial operations and for maintaining a sound financial position. The Supervisor is the chief executive officer, chief fiscal officer and budget officer and is responsible for maintaining the accounting records and preparing financial reports. During 2014, the Supervisor delegated some of these duties to a bookkeeper.<sup>2</sup>

Starting in January 2014, the Town had an agreement with the County for the County Treasurer to prepare monthly bank reconciliations and the annual update document. The Town formalized a new agreement with the County to provide certain accounting, bookkeeping and payroll services in July 2015. During 2015, the Town Clerk was responsible for recording the financial transactions and processing payroll in the financial accounting software, in addition to her own responsibilities for preparing vouchers.

The Town provides various services to its residents, including street maintenance, snow removal, police, recreation, lighting and general government administration. The Town's budgeted appropriations for 2015 were approximately \$3.63 million, funded primarily with real property tax, sales tax and State aid. Town-wide (TW) funds encompass the entire Town, including the Village. Town-outside-village (TOV) funds encompass only the portion of the Town that lies outside of the Village.

## Objective

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

- Did Town officials effectively manage 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 through August 12, 2015.

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.

<sup>2</sup> The Supervisor's former bookkeeper left in July 2014 and a part-time bookkeeper was hired and worked until January 2015.

**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 recommendations and indicated they have begun 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 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 Clerk's office.



## Financial Condition

Financial condition may be defined as a local government's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A local government in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. 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. This responsibility requires the Board to develop multiyear financial plans that set long-term priorities and goals. Best practices provide that policies and procedures governing budgeting practices and the level of fund balance to maintain be developed to ensure that a financial cushion is available for unanticipated expenditures, revenue shortfalls or cash flow purposes.

Since fiscal year 2012, the Board has taken steps to reduce the Town's excessive TOV fund balance. However, the Board did not develop a written multiyear financial and capital plan that detailed how to accomplish its goal of reducing fund balance and lowering the overall budget and tax levy in a five-year period. The Board also did not have policies or procedures governing budgeting practices or the level of fund balance to maintain. In addition, due to accounting errors and lack of monitoring, sales tax revenues were inappropriately disseminated and cash flow problems and taxpayer inequities occurred. Specifically, at the end of 2014, the TW general fund had a total fund balance deficit of \$38,956 and the traffic district fund had a fund balance deficit of \$44,073. As of the end of 2014, the TW general, capital projects, fire protection, traffic district and park funds used a total of \$1.3 million in cash from other funds to pay their financial obligations. However, four of the five funds ended the year with insufficient cash assets to pay back the liabilities as required.

### Multiyear Financial Planning

It is important for the Board to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and help identify revenue and expenditure trends, set long-term priorities and goals, consider the impact of budgeting decisions on future fiscal years and avoid large fluctuations in tax rates. Multiyear planning also allows Town officials to assess the impact and merits of alternative approaches to address financial issues, such as the use of fund balance to finance operations and the accumulation of money in reserve funds. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary



guidance to employees on the financial priorities and goals set by the Board. Any long-term financial plan must be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board did not develop a multiyear financial and capital plan. The Board did not adopt policies and procedures that established financial goals or governed budgeting practices and the level of fund balance to maintain. Board members told us that they had a five-year goal to reduce fund balance, lower the overall budget and reduce the total tax levy to under \$1 million by 2015. However, the Board did not develop a plan to show the future impact and sustainability of these changes or establish reserve funds to plan for future needs. To meet this goal, the Board entered into various agreements for shared services to help reduce costs and generate additional revenue.<sup>3</sup> The Board also intentionally reduced fund balance levels during this time by appropriating fund balance to reduce the tax levy.

Although the Board did take steps to reduce the Town's excessive fund balance in the TOV funds, the progress will be offset by correcting the errors in allocating sales tax. To support future progress in ensuring all Town funds have reasonable fund balance levels, it is important to establish a well-documented plan that can be adjusted to reflect different scenarios and changing conditions. A formal long-term plan would assist the Board in managing several challenges that the Town faces. These include:

- Declining fund balances in the TW general and traffic district funds.
- A change in the County's method of sharing sales tax revenue announced in 2013 that reduced sales tax revenues by an increasing percentage each year from 2014 through 2018. This resulted in projected revenue reductions of 17 percent in 2015 which will progress each year to reductions of 32 percent in 2018.
- Correcting an error in the way the Town allocated sales tax revenue.
- Inadequate cash flows in several funds.

Because the Board has not developed a multiyear financial plan which includes specific estimates for revenues, expenditures, reserves and

<sup>3</sup> The Town has agreements with surrounding municipalities for shared services for the assessor, highway superintendent, animal control, mutual aid for code enforcement and bookkeeping services.

fund balance, its ability to effectively manage the Town's finances is limited.<sup>4</sup> Formalizing its goals and actions will allow the Board to determine if its plan will sufficiently offset the Town's lost revenues while still maintaining the desired level of services. If used properly, the formalized plans will allow the Board to identify challenges earlier, when more options may be available. The plan also will be a useful tool in informing the public of the challenges the Board faces and the choices it made.

## **Fund Balance**

A key measure of the Town's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance provides cash flow and can be used to help finance the next year's operations. The unrestricted portion of fund balance is the amount that may be appropriated to fund programs in the next year's budget or be retained for cash flow purposes and to help finance future operations. An appropriation of fund balance is the use of unexpended resources from prior years to finance current year budget appropriations and is considered a one-time financing source. This is an acceptable and reasonable budget practice when the Town has accumulated an adequate level of unrestricted fund balance.

From fiscal years 2012 through 2014, the Board achieved its goal of reducing fund balance and real property taxes by continually increasing the amount of fund balance appropriated to finance Town operations. As a result, combined fund balance for all funds declined by 35 percent, from \$2,563,951 as of January 1, 2012 to \$1,658,876 as of December 31, 2014. The Town's ending 2012 fund balance was 62 percent of the 2013 budgeted appropriations, while the 2014 ending fund balance was 46 percent of the 2015 budgeted appropriations.

When developing the 2015 budgets, the Board continued to appropriate fund balance totaling \$567,225 (34 percent of total fund balance), which was significantly more than any of the previous three years. This was intended to offset the reduction in sales tax revenues projected to decline \$253,461 (17 percent) due to the County's redistribution of sales tax. The remaining \$1,091,651 in fund balance as of December 31, 2014 was composed of unassigned fund balance totaling \$1,037,257 (63 percent of total fund balance) and nonspendable fund balance totaling \$54,394 (3 percent of total fund balance). The Town's total unrestricted fund balance remains high. However, because fund balance is a nonrecurring revenue source, Town officials need to be careful going forward to ensure that it does not get depleted.

<sup>4</sup> Guidance is available in the Office of the State Comptroller publication titled *Local Government Management Guide, Multiyear Financial Planning*, available at <http://www.osc.state.ny.us/localgov/pubs/lmg/multiyear.pdf>

In addition, the TW general and traffic district funds have already begun to decline due to accounting errors and overreliance on appropriated fund balance, as illustrated in Figures 1 and 2.

TW General Fund – The TW general fund maintained a steady level of fund balance until the end of 2014. There was a significant prior period adjustment in 2014 reducing fund balance by \$424,013 to adjust recordkeeping between the TW and TOV general funds. However, Town officials could not provide a detailed explanation for such a large adjustment. As a result of this adjustment and an operating deficit of \$53,619 in 2014, the TW general fund had a total fund balance deficit of \$38,957 at the end of 2014. Further, during budget preparation time, the Supervisor provided the Board with an inaccurate fund balance estimate of \$301,810. As a result, the 2015 Board-adopted budget planned to appropriate fund balance totaling \$158,419 that was not available. Figure 1 depicts the TW general fund balance over the past three years.

Figure 1: TW General Fund Balance			
	2012	2013	2014
Beginning Fund Balance	\$355,624	\$342,378	\$438,675
Prior Period Adjustment	(\$58,075)	\$95,543	(\$424,013)
Restated Fund Balance	\$297,549	\$437,921	\$14,662
Operating Surplus/(Deficit)	\$44,828	\$754	(\$53,619)
Ending Fund Balance	\$342,377	\$438,675	(\$38,957)

The combined fund deficit as of December 31, 2014 and the amount appropriated that did not exist were the equivalent of 23 percent of 2014 expenditures. As a result of an unrecorded \$351,726 liability to the TOV funds for misallocating sales tax revenue (See the Sales Tax section below) the financial condition of the TW general fund is considerably worse than reported. While the Town may continue to expend slightly less than budgeted in 2015, this difference will not be sufficient to cover the budgeted financing shortfall that resulted from overestimating the amount of fund balance available. As a result, the fund will likely experience another operating deficit, which will increase the fund balance deficit.

Traffic District Fund –The traffic district’s fund balance has declined from a surplus of \$48,170 as of January 1, 2012 to a deficit of \$44,073 as of December 31, 2014. This deficit was the equivalent of 9 percent of 2014 expenditures. The decline in fund balance was, in part, the result of the Board adopting budgets that planned for operating deficits by appropriating non-existent fund balance. The Board planned to appropriate a total of \$33,790<sup>5</sup> in the 2013 and 2014 budgets that was not available, creating a financing shortfall each year. In addition,

<sup>5</sup> The Board appropriated \$20,312 in 2013 and \$13,478 in 2014.

expenditures exceeded appropriation estimates by 5 percent in 2012 and 3 percent 2014. As a result, larger than planned operating deficits occurred. Figure 2 depicts the traffic district fund balance over the past three years.

<b>Figure 2: Traffic District Fund Balance</b>			
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Beginning Fund Balance	\$48,170	(\$6,309)	(\$17,489)
Prior Period Adjustment	\$0	\$6,414	\$1,460
Restated Fund Balance	\$48,170	\$105	(\$16,029)
Operating Deficit	(\$54,479)	(\$17,594)	(\$28,044)
Ending Fund Balance	(\$6,309)	(\$17,489)	(\$44,073)

Town officials told us that they had concerns with this fund because it mainly relies on taxes with little other consistent revenue. However, they did not formulate a plan to help eliminate the fund balance deficit. Instead, the Board-adopted 2015 budget slightly increased both revenue and expenditure estimates by 3 percent and included a negative fund balance appropriation totaling \$1,230. The Supervisor told us that this was intended as a way to generate a surplus to help increase the fund balance. However, these actions would have minimal impact on eliminating the accumulated fund balance deficit. Further, as of June 30, 2015, the appropriation for full-time employees' overtime totaling \$15,000 was 97 percent expended with six more months left in the year. Without a reduction in other expenditures, the fund will most likely experience another operating deficit in 2015, which will further increase the fund balance deficit for the fourth consecutive year.

Having fund balance deficits and no reserves restricts the Town's ability to react to external influences, such as economic downturns and emergencies, and increases the reliance on short-term borrowings from other funds or future revenues. To ensure the Town improves its fiscal health, the Board needs to accurately budget revenues, expenditures and fund balance and closely monitor actual results against the amounts budgeted. If the Board continues to appropriate fund balance when developing future budgets, it will need to monitor the amount so that fund balance is not exhausted. Further, it is important to monitor the TOV funds to ensure that fund balance deficiencies and cash shortages similar to those in the TW general, traffic district, capital projects and fire protection funds<sup>6</sup> will not occur.

<sup>6</sup> As of December 31, 2014, the TW general fund had a fund balance deficiency of \$38,957 with a cash balance of \$1,043,218, the TOV general fund had a fund balance of \$1,264,202 with a cash balance of \$172,537, the TOV highway fund had a fund balance of \$335,382 with no available cash, the traffic district fund had a fund balance deficiency of \$44,072 with no available cash, the drainage fund had a fund balance of \$8,616 with a \$2,134 cash balance, the fire protection fund had a fund balance deficiency of \$87 with no available cash, the lighting fund had a fund balance of \$20,355 with no available cash and the park fund had a fund balance of \$113,438 with a cash balance of \$269,920.

## Taxpayer Equity

The purpose for maintaining separate TW and TOV 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 TW and TOV resources. This ensures that all taxpayers are treated equitably, have the benefit of all resources due them and pay only those real property taxes required of them.

Because sales tax revenues were improperly allocated and interfund activity was improperly recorded, Town residents were not treated equitably. Furthermore, these actions have resulted in an inaccurate depiction of the actual financial condition of certain Town operating funds.

Sales Tax – New York State 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 TOV funds, unless real property taxes in those funds have been reduced to zero. If any sales tax revenues remain after eliminating TOV property taxes, the Board may apply the remainder to reduce general TW taxes.

Both the Town and the Village receive sales and use tax distributions from the County. However, since at least 2012, the Town has incorrectly transferred sales and use tax revenues totaling \$351,726 (6 percent of TOV revenues) from the TOV general fund to the TW general fund, even though real property taxes were still being raised in the TOV funds. 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) and the taxpayers in the TOV have had to pay additional taxes. 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. The Board's practice of misallocating sales tax revenue continued in the 2015 budget, which planned for an additional \$108,000 (7 percent of TOV revenues) to be incorrectly transferred from the TOV general fund to the TW general fund. In addition, by not including the existing sales tax liability of \$351,726 to repay the TOV, the Town's financial positions of these two funds are misstated.

Interfund Advances and Cash Flow – General Municipal Law (GML) requires that interfund advances be authorized by the Board and suitable records be kept. It is important that Town officials monitor individual cash balances and prepare cash flow projections to identify cash advance needs in a timely manner.<sup>7</sup> Town officials should prepare and submit necessary cash advances to the Board for approval before making them and record these advances in the accounting system when they make them. When Town officials advance moneys between funds that have different tax bases, they must repay the loans, with reasonable amounts of interest, by the end of the fiscal year in which the loans are made.<sup>8</sup> Interfund advances are different from interfund transfers in that interfund transfers occur between funds with the same taxpayer base and the transfers are not considered a loan that requires repayment. Funds that need to rely on other funds for cash to routinely pay expenditures are an indication of poor budgeting and financial management. Interfund advances can obscure the true financial condition of individual funds.

The Board did not receive regular reports of cash flow or cash balances, so it was unable to properly monitor cash flow. Of notable concern, these ongoing interfund advances are not recorded and are not approved by the Board. These advances occurred because the Town used a common bank account for all of its operating and capital projects funds. Town officials disbursed money from the commingled bank account throughout the year to pay expenditures, regardless of whether the responsible fund had sufficient cash, and did not record interfund advances. Town officials did not identify these interfund advances until after year-end<sup>9</sup> and did not pay interest from the receiving fund to compensate the lending fund.

As a result, as of the end of 2014, the TW general, capital projects, fire protection, traffic district and park funds all used a total of \$1.3 million in cash from other funds to pay their financial obligations. As indicated in Figure 3, the TW general, capital projects, fire protection and traffic district funds ended the year with insufficient cash assets to pay back the liabilities as required, even if they had been identified in a timely manner. The method of recording and reporting these transactions is not transparent and tends to obscure the individual funds' financial conditions.

<sup>7</sup> OSC has developed a tutorial to help local governments prepare cash flow projections at <http://www.osc.state.ny.us/localgov/training/modules/cashmgmt/four/index.htm>

<sup>8</sup> The TOV general and highway funds have the same tax base while the TW general fund and special districts (traffic, fire protection, lighting, park, drainage) funds have unique tax bases.

<sup>9</sup> The County Treasurer told us that he reconciled cash as of December 31, 2014 and prepared the annual update document, but did not determine cash balances per fund until later. As a result, he prepared prior period adjustments to allocate cash per fund.



**Figure 3: Interfund Advances and Available Cash as of December 31, 2014**

	Net Receivable (Payable)	Cash	Net Cash Surplus/ (Deficit)
TW General	(\$1,091,547)	\$1,043,218	(\$48,329)
TOV General	\$1,054,877	\$172,537	\$1,227,414
TOV Highway	\$231,120	\$0	\$231,120
Capital Projects	(\$28,939)	\$0	(\$28,939)
Drainage	\$6,482	\$2,134	\$8,616
Fire Protection	(\$87)	\$0	(\$87)
Lighting	\$20,355	\$0	\$20,355
Traffic	(\$39,277)	\$0	(\$39,277)
Park	(\$153,397)	\$269,920	\$116,523
Trust and Agency	\$413	\$177,218	\$177,631
<b>Totals</b>	<b>\$0</b>	<b>\$1,665,027</b>	<b>\$1,665,027</b>

Another concern is that, while the Town's overall cash position is healthy, total cash assets have declined over \$871,000 (34 percent) in the past three years to \$1,665,027 at the end of 2014. The Town's 2014 cash was 45 percent of appropriations. Further, the TW general and traffic district funds continue to decline and may not have the resources to repay their loans. Therefore, these funds may need additional support from other funds to sustain operations in 2015, which will further decrease the Town's cash position.

As a result of Town officials' failure to monitor cash balances and comply with statutory requirements for making cash advances between operating funds, the Board and Town management were unable to effectively monitor the Town's current financial position and make sound financial decisions. Furthermore, given the improper use of sales tax revenue, the TW general fund is in much worse financial condition than it would appear because it owes a substantial debt to the TOV funds. This will likely require a substantial increase in the tax rate in the TW general fund. Without sufficient reports on cash balances for each fund, the Board is limited in its ability to monitor the full financial position of each fund throughout the year. Therefore, the Board cannot ensure that sufficient cash is available to meet financial obligations or as needed for emergencies.

## Recommendations

The Board should:

1. Develop and adopt a multiyear financial plan for long-term operating and capital needs. This plan should be monitored and updated on an ongoing basis.
2. Adopt policies and procedures to govern budgeting practices and the reasonable level of fund balance to be maintained in each fund to meet the Town's needs.



3. Implement a plan to eliminate the accumulated fund balance deficits.
4. Limit the appropriation of fund balance to amounts that are available.
5. Properly allocate sales tax revenues in accordance with statutory requirements and develop a plan to repay the TOV funds for amounts improperly credited to the TW fund.
6. Make immediate adjustments to the TW general fund's 2015 budget to correct the improper inclusion of \$108,000 in sales tax revenue.
7. Ensure that all interfund borrowing is repaid in accordance with GML.
8. Continue to evaluate and explore cost-saving measures or revenue enhancements to help offset the Town's loss of sales tax revenues.

The Supervisor should:

9. Correct the accounting records in the TOV general fund and the TW general fund to properly reflect the improper allocation of \$351,726 in sales tax revenue from 2012 through 2014.
10. Provide monthly cash flow projections for each fund to the Board to assist in making informed financial decisions.

**APPENDIX A**

**RESPONSE FROM LOCAL OFFICIALS**

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



## **TOWN OF ELMIRA**

ESTABLISHED 1792

1255 WEST WATER STREET  
ELMIRA NEW YORK 14905

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December 21, 2015

Edward V. Grant Jr.  
Chief Examiner  
Rochester Regional Office  
16 West Main Street, Suite 522  
Rochester, NY 14614-1608

Re: Town of Elmira Audit

Mr. Grant:

This letter is our response to the preliminary draft findings of the Town of Elmira Audit conducted this past summer by your office.

In general I have found your staff's report to be helpful and we have already implemented new practices to comply with most of the recommendations. The Elmira Town Board will approve our complete Corrective Action Plan at its next meeting, on December 29<sup>th</sup>, and then I will submit to the Comptroller's office.

As always our board members and staff appreciate the courtesies and professionalism extended them by your audit team.

Sincerely,

David P. Sullivan  
Supervisor  
Town of Elmira

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

The objective of this audit was to review the Town's financial condition for the period January 1, 2012 through August 12, 2015. To achieve our objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials to determine the controls and processes in place and gain an understanding of the Town's budget process and financial condition.
- We reviewed Board minutes, intermunicipal agreements and sales tax projections for fiscal years 2015 through 2018.
- We reviewed total annual revenues and expenditures to determine the operating deficits or surpluses for each fund and determine the impact of the deficit or surplus on fund balance.
- We analyzed fund balance and compared budgeted revenues and expenditures to actual operating results for fiscal years 2012 through 2014 and with the 2015 budget.
- We reviewed budgets for fiscal years 2012 through 2015 to determine if they were reasonable and structurally balanced.
- We reviewed individual line item budget-to-actual results for 2012 through June 30, 2015.
- We reviewed each fund's cash balances to determine if funds had sufficient cash for liabilities and operations.
- We reviewed interfund transfers and interfund advances.
- We reviewed sales tax revenue, transfers from part-town to TW funds and the tax levy of part-town funds to determine if sales tax allocation was appropriate.

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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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Tracey Hitchen Boyd, Assistant Comptroller

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