



Town of Greene Budget Practices

Report of Examination

Period Covered:

January 1, 2015 — October 11, 2016

2016M-409



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2017

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 Greene, entitled Budget 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 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*

Introduction

Background

The Town of Greene (Town) is located in Chenango County, includes the Village of Greene within its boundaries and serves approximately 5,600 residents. The Town provides various services for its residents, including street maintenance, snow removal, water distribution, sewage treatment and general government support. The Town's 2017 budget is approximately \$2.3 million, primarily funded with real property taxes, sales tax, user fees and State aid.

The Town is governed by an elected Town Board (Board) composed of four Board members and a Town Supervisor (Supervisor). The Supervisor, as the chief fiscal officer and chief executive officer, is responsible for the Town's day-to-day management, which includes performing basic accounting functions and maintaining the accounting records under the Board's direction. The Supervisor is also the budget officer and leads the annual budget development process. The Board is responsible for overseeing Town operations and finances, which includes periodically reviewing budget-to-actual reports.

Objective

The objective of our audit was to examine Town officials' budget practices for the four major operating funds, which included the general and highway town-wide (TW) funds and the general and highway town-outside-village (TOV) funds. Our audit addressed the following related question:

- Did the Board adopt realistic budgets for its four major operating funds?

Scope and Methodology

We examined the Town's financial records and reports for the period January 1, 2015 through October 11, 2016. We extended our scope period back to January 1, 2013 and expanded our scope period forward through December 31, 2016 to analyze the budget process and determine the reasonableness of adopted budgets.

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. Town officials agreed with our recommendations 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 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.

Budget Practices

The Board is responsible for making sound financial decisions that are in the best interest of the Town and the residents who fund its operations. This responsibility requires Board members to balance the level of services desired and expected by Town residents with the ability and willingness of the residents to pay for such services. It is essential that the Board adopt structurally balanced budgets to provide recurring revenues to finance recurring expenditures. Fund balance represents money remaining from prior fiscal years that can be appropriated to finance the next year's budget.

After the Board makes budgetary appropriations and sets money aside for any legally authorized reserves, the Town may retain a portion of fund balance as a financial cushion for unforeseen expenditures and to provide for cash flow needs. Accordingly, the Board should establish guidelines for a reasonable level of fund balance to be maintained. It is also important for the Board to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, Town officials should develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs.

The Board did not develop realistic budgets for its four major operating funds. This resulted in operating surpluses which contributed to a steady increase in fund balance levels over the last three years. Furthermore, Town officials have not developed a formal plan to use the accumulated balances or adopted a policy for the acceptable levels of fund balance to maintain. As a result, Town officials may have compromised the transparency of their financial operations and may have unnecessarily raised real property taxes.

Although the Board obtained information from department heads, held budget workshops and projected year-end figures, from 2014 through 2016 it adopted budgets with estimated revenues that generated significant budget variances averaging 17 percent for the TW funds and 15 percent for the TOV funds. These variances were primarily driven by underbudgeted State aid in the TW funds and sales tax in the TOV funds and resulted in operating surpluses during all three years.

Figure 1: Budget-to-Actual Revenue Comparison^a

	TW Funds			TOV Funds		
	2014	2015	2016	2014	2015	2016
Budgeted Revenues	\$134,000	\$135,900	\$135,400	\$689,921	\$687,270	\$680,000
Actual Revenues	\$171,833	\$152,570	\$151,045	\$806,066	\$788,432	\$761,978
Amount Over Budget	\$37,833	\$16,670	\$15,645	\$116,145	\$101,162	\$81,978
Percentage Over Budget	28%	12%	12%	17%	15%	12%

^a Revenue figures exclude real property tax revenue. This accounts for the large differences between budgeted revenues and appropriations shown in Figure 2.

We compared budgeted appropriations with actual expenditures for these years. Appropriations were overestimated by an average of approximately \$157,400 annually and variances averaged 23 percent for TW funds and 6 percent for TOV funds (Figure 2).

Figure 2: Overestimated Appropriations

	TW Funds			TOV Funds		
	2014	2015	2016	2014	2015	2016
Appropriations	\$1,238,009	\$1,234,290	\$1,303,734	\$967,042	\$980,390	\$1,005,929
Actual Expenditures	\$1,056,752	\$946,035	\$1,065,549	\$937,497	\$963,613	\$882,028
Overestimated Appropriations	\$181,257	\$288,255	\$238,185	\$29,545	\$16,777	\$123,901
Percentage Overestimated	17%	30%	22%	3%	2%	14%

These expenditure variances occurred because Town officials considered historical data and overestimated individual appropriation lines. On average over the last three years, Town officials overestimated 58 of the 77 appropriation budget lines (75 percent).¹ Officials told us that they overestimated these expenditures to increase fund balance and avoid issuing debt for future unforeseen expenditures.

The budgeted surpluses in effect offset the Board’s budget allocation to expend money retained in the fund balances and caused fund balances to steadily increase. More specifically, the Board appropriated almost \$714,000 from 2014 through 2016 that was not used to finance operations. Additionally, Town officials have no clear plans for the use of these accumulated funds. For example, officials have not developed a fund balance policy or long-term financial and capital plans to set forth the Town’s objectives and goals for using the accumulated funds.

¹ See Appendix B for specific examples.

As a result of the Board's budget practices, TW fund balances increased 15 percent from approximately \$970,000 in 2014 to more than \$1.1 million in 2016. Similarly, TOV fund balances increased 16 percent from approximately \$839,000 in 2014 to more than \$977,000 in 2016. These fund balances represent 93 percent of TW and 101 percent of TOV budgeted appropriations for 2017.

It is prudent to have some fund balance or to use conservative budgeting practices to provide for unanticipated events and cash flow. However, by accumulating almost enough fund balance to fund an entire year's operations while still adopting overly conservative budgets, the Board has set tax levies higher than needed. By using these practices, Town officials may have compromised the transparency of the Town's financial operations and denied Town residents a say in determining how their money is spent, resulting in raising more real property taxes than necessary.

Recommendations

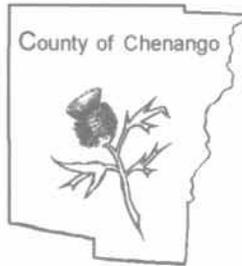
The Board should:

1. Obtain and review several years of historical data to use during the budget development process.
2. Develop and adopt budgets that include realistic estimates for revenues and expenditures.
3. Develop a fund balance policy that establishes the levels of fund balance, including reserves, to be maintained in each fund to meet the Town's needs.
4. Develop comprehensive multiyear financial and capital plans.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF GREENE
County of Chenango
Town Hall
51 Genesee Street
Greene, N.Y. 13778
(607) 656-4191



January 18, 2017

Mr. H. Todd Eames, Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Mr. Eames:

I have received and reviewed the Draft Report, "Town of Greene Budget Practices Report of Examination 2016M-409". The conclusions contained in this report regarding budget to actual variances and the associated growth of fund balances are accurate.

In the last 15 years Town of Greene has suffered nine catastrophic events that were declared National Disasters and several equally catastrophic events that were local in nature and, therefore, not declared as disasters. Recovery from each of these events has been incredibly expensive. We have financed recovery efforts with unexpended balances. Because of the increasing frequency of these events the Town of Greene has made a conscious effort to grow and maintain healthy unexpended balances in anticipation of the next disaster.

The Town of Greene will implement the suggestions for corrective action contained in this report while continuing to practice financially conservative principles.

Sincerely,

George (Pete) Raymond
Town Supervisor

APPENDIX B

APPROPRIATION LINE VARIANCES

Overestimated Line Appropriations				
Fund	Description	Cumulative Appropriations	Cumulative Actual Expenditures	Cumulative Difference
		2014 through 2016		
TW	Garage, Contractual Expenditures	\$115,800	\$70,597	\$45,203
TW	Hospital & Medical Insurance	\$617,635	\$475,437	\$142,198
TW	Machinery, Equipment & Capital	\$510,000	\$463,345	\$46,655
TW	Machinery, Contractual Expenditures	\$450,000	\$261,762	\$188,238
TW	Brush & Weeds	\$43,073	\$16,952	\$26,121
TW	Law, Contractual	\$18,000	\$2,825	\$15,175
TW	Engineer	\$8,000	\$0	\$8,000
TOV	Maintenance of Streets, Personal Services	\$488,425	\$443,989	\$44,436
TOV	Social Security, Employee Benefits	\$80,155	\$56,604	\$23,551
TOV	Hospital & Medical, Employee Benefits	\$125,635	\$115,211	\$10,424
Cumulative Totals		\$2,456,723	\$1,906,722	\$550,001

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Town officials to gain an understanding of the budget development process and the level of fund balance and reserves established by the Board.
- We calculated the dollar and percentage variances of total budgeted revenues and appropriations compared to actual revenues and expenditures to determine if budgets were reasonable. We also compared budgeted revenue and appropriation amounts by individual budget lines to determine if specific appropriations impacted the variances.
- We calculated the difference between budgeted fund balance appropriations and actual needs to determine if fund balance was being used as planned.
- We calculated the results of operations for the last three completed fiscal years (2014 through 2016) to determine if fund balance was needed as budgeted and if unassigned/unappropriated fund balance increased or decreased over these years.
- We projected 2016 year-end revenues and expenditures and then compared these projected amounts with the budgeted amounts to determine if variance trends continued in 2016.

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.

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