



Town of Butternuts

Accounting and Reporting

Report of Examination

Period Covered:

January 1, 2015 — June 24, 2016

2016M-323



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 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 Butternuts, entitled Accounting and Reporting. 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 Butternuts (Town) is located in Otsego County (County) and has a population of 1,786 residents. The Town is governed by an elected five-member Town Board (Board) which is composed of the Town Supervisor (Supervisor) and four Board members. The Board is the legislative body responsible for overseeing the Town's operations and finances and overall management of the Town, including adopting and monitoring the budget. The Village of Gilbertsville (Village) is located wholly within the Town's boundaries.

The Supervisor is the chief executive officer and chief fiscal officer and is responsible for the Town's daily financial operations, including maintaining accounting records and providing the Board with timely and accurate financial information.

The Town provides various services to its residents, including highway and street maintenance, parks and recreation and general government support. The Town's 2016 budgeted appropriations for the town-wide (TW) and town-outside-village (TOV) funds totaled \$1.3 million.

Figure 1: Town Fund Appropriations

Fund	2016 Budgeted Appropriations
TW General	\$328,949
TOV General	\$3,200
TW Highway	\$587,204
TOV Highway	\$409,056
Total	\$1,328,409

The Town's appropriations are funded primarily with real property taxes, sales tax and State aid.

Objective

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

- Did the Board properly manage the Town's financial condition?

Scope and Methodology

We examined the financial records and reports of the Town for the period January 1, 2015 through June 24, 2016. We extended our scope back to January 1, 2010 for trend analysis.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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 they have initiated 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.

Accounting and Reporting

The Board is responsible for the financial planning and management necessary to maintain the Town's financial condition. To adequately evaluate financial condition, it is essential that complete and accurate records are maintained to properly account for the Town's financial activities. The lack of adequate accounting records makes it difficult for the Board to evaluate the Town's financial activities and can obscure the Town's true financial condition. Good management practices dictate that revenues and expenditures be consistently reported from year to year to accurately present financial operating trends. In addition, it is essential to allocate revenues and expenditures to the proper funds to maintain taxpayer equity and ensure that all revenues and expenditures are accurately reported.

When a town receives sales tax distributions, it should ensure that the sales tax revenues are budgeted for and allocated in accordance with statute. New York State Tax Law provides that, since the Village receives sales tax payments from the County, the Town must first use the sales tax proceeds it receives to benefit the area outside of the Village (the Town's part-town funds). However, when a town does not levy property taxes in its part-town funds, it may then apply portions of the sales tax revenues on a town-wide basis. Doing so will ensure equity among taxpayers and that only necessary amounts of taxes are being raised.

The Board did not properly manage the Town's financial condition. It improperly allocated approximately \$181,500 of sales tax distributions and \$150,400 of CHIPS¹ revenue across differing and incorrect tax bases, resulting in taxpayer inequity. Furthermore, Town officials maintained inaccurate accounting records resulting in misstatements in several funds.

Sales Tax – Town officials applied 35 percent of sales tax distributions to TW funds over the last six completed fiscal years, even though the Village received sales tax revenues as well. More specifically, officials inappropriately distributed \$181,529 to TW general and highway funds instead of the TOV highway fund, while levying \$600,622² in real property taxes for the TOV highway fund. Appendix B includes a chart which analyzes sales tax allocations in years when real property taxes were raised in TOV funds.

¹ Consolidated Local Street and Highway Improvement Program

² We reviewed the past six completed fiscal years and found inappropriate allocations in the last four years.

This occurred because Town officials were unaware of the proper allocation of sales tax distributions and continued to allocate sales tax based on the actions of the previous administration.

Balance Sheet Transactions – Town officials did not maintain accurate cash and fund balance transactions in their accounting records. More specifically, they shared a checking account between the TW and TOV highway funds and did not fully distinguish between the two funds in their accounting records. This resulted in an inadvertent and inappropriate use of approximately \$88,000 of TW highway fund cash for TOV highway fund expenditures. Consequently, the Town’s TOV highway fund cash and fund balance³ records were inflated by an average of almost \$84,000 in each of last three fiscal years.

CHIPS Allocation – Town officials did not allocate reimbursement revenue to the fund from which the original expenditures were made under the CHIPS program. The former Supervisor improperly allocated \$150,400 of 2013 CHIPS reimbursement money to the TW highway fund for expenditures originally charged to the TOV highway fund. This contributed to an operating deficit of \$196,000 in the TOV highway fund for fiscal year 2013.

As a result of these errors, TOV residents inappropriately subsidized TW operations. Furthermore, the Board made unsound financial decisions based on incorrect information, including the continued use of nonexistent TOV highway fund balance. We recalculated fund balances as of December 31, 2015 to reflect the correct sales tax distributions and allocations of reimbursements and expenditures over the last six completed fiscal years. Based on our recalculation, the TOV highway fund has a fund balance of \$264,098 at December 31, 2015, rather than the approximate \$20,000 recorded in the Town’s accounting records.

Figure 2: Fund Balance as of December 31, 2015			
	TW General	TW Highway	TOV Highway
Fund Balance per Town Records	\$326,254	\$511,811	\$19,887
Adjustments from Sales Tax Correction	(\$164,306)	(\$17,223)	\$181,529
Adjustments from CHIPS Error	\$0	(\$150,401)	\$150,401
Balance Sheet Adjustments	\$0	\$87,719	(\$87,719)
Corrected Fund Balance	\$161,948	\$431,906	\$264,098

³ Since the sole assets in these funds were cash and there were no recorded liabilities, cash and fund balance are the same.

We provided training to the Supervisor and the Board in 2015 on proper sales tax allocation and other budgeting practices. The Supervisor and Board were receptive to the training and correctly allocated sales tax in the 2016 budget. We commend local officials for taking corrective action for 2016, and encourage them to correct for the misallocations of prior years.

Recommendations

The Board should:

1. Adopt budgets which include the equitable and proper allocation of sales tax revenues.
2. Correct the payment of prior years' inequitable and improper allocations.

The Supervisor should:

3. Properly record the separate cash balances of different funds that are commingled in one bank account.
4. Properly allocate reimbursements to the fund that originally incurred the expenditure.
5. Adjust fund balance to correct prior accounting errors.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Town of Butternuts
1234 State Highway 51
PO Box 318
Gilbertsville, NY 13776

Town Supervisor-Linda Gover
Board Member-Donald Hunt
Board Member-Scot Lueck
Board Member-Bruce Giuda
Board Member-Keith Lilley

Town Clerk –Jacqueline Foster
Tax Collector- Doris Moennich

November 16, 2016

Office of the State Comptroller
44 Hawley Street #1702
Binghamton, NY 13901

Dear Sir or Madam,

Thank you for your visit to our town and for the valuable feedback you provided on our town records. We appreciate your efforts in helping us to understand the correct municipal accounting procedures.

Upon your recommendations, we have already begun to insure that we are posting revenues to the correct funds. Also beginning in 2015, we started separating our TW and TOV records on the balance sheet. In 2016, we also separated out our Fire and Lighting Districts on the balance sheet.

Thank you again for your time and feedback. The process has been very helpful in our understanding of the Town Boards responsibilities and the municipal account process.

Sincerely,

Linda Gover
Supervisor

APPENDIX B

SALES TAX ALLOCATION

The following chart analyzes whether sales taxes were allocated in years when real property taxes were raised in TOV funds. All figures from fiscal years 2010, 2011, and 2012 are from the Town's Annual Update Document. Fiscal years 2013, 2014, and 2015 figures are based on our calculations.

Figure 3: Sales Tax Allocation							
	2010	2011	2012	2013	2014	2015	TOTAL
Sales Tax							
TW General Fund	\$0	\$0	\$58,874	\$41,271	\$34,375	\$29,786	\$164,306
TW Highway Fund	\$0	\$0	\$0	\$0	\$0	\$17,223	\$17,223
Total TW	\$0	\$0	\$58,874	\$41,271	\$34,375	\$47,009	\$181,529
Percentage of Total	0%	0%	53.9%	37.8%	30.2%	42.7%	34.5%
TOV General Fund	\$0	\$0	\$7,724	\$23,733	\$7,781	\$0	\$39,238
TOV Highway Fund	\$33,933	\$50,226	\$42,644	\$44,292	\$71,529	\$63,052	\$305,676
Total TOV	\$33,933	\$50,226	\$50,368	\$68,025	\$79,310	\$63,052	\$344,914
Percentage of Total	100%	100%	46.1%	62.2%	69.8%	57.3%	65.5%
Total	\$33,933	\$50,226	\$109,242	\$109,296	\$113,685	\$110,061	\$526,443
Real Property Taxes							
TOV General Fund	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOV Highway Fund	\$83,780	\$128,980	\$151,873	\$156,999	\$153,350	\$138,400	\$813,382
Total TOV	\$83,780	\$128,980	\$151,873	\$156,999	\$153,350	\$138,400	\$813,382

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials, reviewed Board minutes and reviewed financial reports and Town policies to gain an understanding of Town operations.
- We calculated which of the Town's funds are major funds using GASB⁴ Statement 34 as a guideline. We tested these major funds (General Town-wide, Highway Town-wide and Highway Town-outside-village) in our other audit procedures.
- We compared revenues and expenditures in the 2013, 2014 and 2015 budgets to calculate whether the budgets were balanced and analyzed whether budgeted recurring revenues fully funded budgeted recurring expenditures or not.
- We calculated whether sales tax was budgeted accurately in 2013, 2014 and 2015, and traced all sales tax payments made by the County to Town bank accounts. We also calculated whether sales tax was applied to TW funds in years when real property taxes were levied in TOV funds and recalculated the operating deficits for the 2013, 2014 and 2015 fiscal years in all of the major funds.
- We reviewed 2013 CHIPS paperwork to determine whether the Town had claimed all money for which it was eligible and traced the 2013 CHIPS payments to Town bank accounts and accounting records and reports.
- We calculated whether the Town had enough fund balance to appropriate in its 2014, 2015 and 2016 budgets.

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.

⁴ Governmental Accounting Standards Board

APPENDIX D

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