



Town of Dayton

Financial Condition

Report of Examination

Period Covered:

January 1, 2008 — December 31, 2012

2013M-90



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 the Town of Dayton, 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 Dayton (Town) is located in Cattaraugus County and has a population of approximately 1,900 residents. The Town is governed by an elected five-member Town Board (Board) comprised of the Town Supervisor (Supervisor) and four council members. The Board is responsible for overseeing the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for maintaining the Town's accounting records, providing monthly financial reports to the Board, and filing annual financial reports with the Town Clerk and the Office of the State Comptroller.

The Town provides various services to its residents including street maintenance, snow plowing, and general government support. Because the Village of South Dayton is within the Town's boundaries, the Town's services are accounted for in four major operating funds, which include the general and highway town-wide funds and the general and highway town-outside-village funds. Budgeted appropriations for the four major funds for the 2012 fiscal year totaled approximately \$615,000.

Objective

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

- Does the Board adopt realistic budgets that are structurally balanced, routinely monitor financial operations, and take appropriate action to maintain the Town's financial stability?

Scope and Methodology

We examined the financial condition of the Town for the period January 1, 2008, to December 31, 2012.

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.

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 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 Clerk's office.

Financial Condition

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 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 routinely monitor financial operations, adopt reasonable budgets, and take appropriate action to ensure that recurring revenues are available to fund recurring expenditures and maintain the Town's financial stability.

The Board does not routinely monitor financial operations, adopt reasonable budgets, or take appropriate action to maintain financial stability. As a result, the highway town-wide fund has a deficit and the general and highway town-outside-village funds have unexpended surplus funds¹ that are excessive.

Budget Monitoring

The Supervisor and Board members are responsible for monitoring the actual results of operations against budgeted amounts to ensure that appropriations are not over-expended, revenues are received as anticipated, and fund balance is available. Budget status reports are critical tools for improving the accuracy and efficiency of the budgeting process, identifying revenue and expenditure trends, and avoiding large fluctuations in tax rates.

While the bookkeeper provided the Supervisor with monthly "Year-to-Date" reports, which reflect the appropriation amounts for each expenditure account, the current amount expended, and the balance of appropriations remaining, the Supervisor did not distribute the reports to Board members. Therefore, Board members were not properly equipped to address the budget variances that occurred in the four major operating funds.² A significant variance in the highway town-wide fund resulted in the deficit unexpended fund balance reported at December 31, 2012.

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance 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).

² The highway town-wide fund, general town-wide fund, general town-outside-village fund, and the highway town-outside-village fund

| Table 1: Highway Town-Wide Fund Balance | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| Beginning Total Fund Balance | \$22,052 | \$22,693 | \$49,928 | \$61,168 | \$61,432 |
| Actual Revenues | \$108,684 | \$121,734 | \$122,864 | \$131,936 | \$129,554 |
| Actual Expenditures | \$108,043 | \$94,499 | \$111,624 | \$131,672 | \$262,018 |
| Operating Surplus/(Deficit) | \$641 | \$27,235 | \$11,240 | \$264 | (\$132,464) |
| Ending Total Fund Balance | \$22,693 | \$49,928 | \$61,168 | \$61,432 | (\$71,032) |
| Less: Appropriated Fund Balance | \$8,000 | \$8,000 | \$13,000 | \$16,000 | \$10,000 |
| Unexpended Surplus/(Deficit) | \$14,693 | \$41,928 | \$48,168 | \$45,432 | (\$81,032) |

The significant variance in 2012 was attributable to an unbudgeted expenditure for machinery. The Supervisor stated that he believed there was an excessive balance in the highway savings bank account, so a truck for the highway department was purchased. Had the Supervisor monitored the budget and available fund balance within the highway town-wide fund, he would have noted that sufficient funds were not available for the truck purchase. Because the highway savings account holds moneys from the Town's two highway funds, the payment for the truck, in effect, represents a loan from the highway town-outside-village fund to the highway town-wide fund, which have different tax bases.

In addition, the Board did not amend the 2012 adopted budget to provide an appropriation for this expenditure in the highway town-wide fund. Had a resolution been prepared for the Board to amend the budget, as required by Town Law, there is a chance that Town officials may have realized that sufficient funds were not available for this purchase in the highway town-wide fund.

We reviewed the Town's adopted budgets from 2008 through 2013 and noted that highway machinery (Item 3)³ appropriations were consistently included in the highway town-wide fund. Therefore, taxes were levied to fund these costs from taxable property within the entire Town and all expenditures for machinery should have been charged to the highway town-wide fund. However, the Town reported \$27,155 and \$48,750 of machinery purchases⁴ in the highway town-outside-village fund in 2008 and 2011, respectively. The Supervisor stated the former bookkeeper believed that the 2011 purchase should be a town-outside-village expenditure, even though the budget and the Board resolution for the purchase appropriately reflected this as a town-wide expenditure. The effect of these erroneous accounting entries is that the highway town-wide fund owes the highway town-outside-village fund an additional \$75,905.

³ See Highway Law

⁴ The town purchased a pickup truck with plow and dump body in 2008 (\$27,155) and a tractor with boom mower in 2011 (\$48,750).

The amounts owed to the highway town-outside-village fund should be reflected in the Town’s accounting records and a plan developed by the Board to repay these moneys. Because the highway town-wide fund previously reported an unexpended fund deficit of \$81,032 as of December 31, 2012, the reported deficit will be increased to \$156,937 when the purchases from 2008 and 2011 are properly reflected in the Town’s accounting records.

Budgeting and Fund Balance

Estimating fund balance is an integral part of the budget process. Fund balance represents moneys from prior fiscal years that can be appropriated to finance a portion of the ensuing year’s budget. Maintaining a reasonable level of fund balance is a key element of effective long-term financial planning. If the amount retained is too low, the Town may not have sufficient financial resources in the event of emergencies or unforeseen events. However, if this amount is excessive, moneys are unnecessarily held instead of being used to benefit the taxpayers. The Board is responsible for using fund balance as a funding source as appropriate and adopting budgets based on realistic estimates of revenues and expenditures.

The Town’s general town-wide fund balance has declined in recent years as illustrated below.

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Beginning Total Fund Balance | \$49,019 | \$39,742 | \$28,324 | \$24,278 | \$3,886 |
| Actual Revenues | \$126,502 | \$129,877 | \$196,939 | \$165,582 | \$148,225 |
| Actual Expenditures | \$135,779 | \$141,295 | \$200,985 | \$185,974 | \$149,626 |
| Operating Surplus/(Deficit) | (\$9,277) | (\$11,418) | (\$4,046) | (\$20,392) | (\$1,401) |
| Ending Total Fund Balance | \$39,742 | \$28,324 | \$24,278 | \$3,886 | \$2,485 |
| Less: Appropriated Fund Balance | \$23,000 | \$23,000 | \$23,000 | \$25,000 | \$23,000 |
| Unexpended Surplus/(Deficit) | \$16,742 | \$5,324 | \$1,278 | (\$21,114) | (\$20,515) |

Operating deficits⁵ were experienced in all five years. By appropriating fund balance to reduce the tax levy in the subsequent year, the Board planned to have operating deficits in all five years. However, while the actual deficits were smaller than anticipated, unexpended surplus declined dramatically. As of December 31, 2012 unexpended surplus was in a deficit position, since the Board continued appropriating fund balance in its adopted 2013 budget.

We also found that the Town did not receive, or record a receivable for, State revenue sharing aid of \$17,820 for 2012. The check was sent to the former Supervisor’s address in error and remained un-cashed

⁵ An operating deficit results when actual expenditures exceed actual revenues.

at the time of our fieldwork. With our assistance, the Supervisor requested a replacement payment. Had this revenue been properly recognized in 2012,⁶ the general town-wide fund balance would have been reported as \$11,305 and the highway town-wide fund deficit would have been reported as \$62,032.

As of December 31, 2012, the general town-outside-village fund reported unexpended surplus funds of \$26,697, which is 102 percent of 2013 budgeted appropriations, and the highway town-outside-village fund reported unexpended surplus funds of \$133,414, which is 58 percent of 2013 budgeted appropriations. These amounts are excessive and should have been used to reduce property taxes in the town-outside-village area or for other statutorily authorized purposes.

Table 3: General Town-Outside-Village Fund Balance

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|-----------|-----------|-----------|----------|----------|
| Beginning Total Fund Balance | \$19,349 | \$14,075 | \$11,272 | \$10,513 | \$11,821 |
| Actual Revenues | \$18,114 | \$24,172 | \$20,454 | \$18,997 | \$42,866 |
| Actual Expenditures | \$23,388 | \$26,975 | \$21,213 | \$17,689 | \$16,990 |
| Operating Surplus/(Deficit) | (\$5,274) | (\$2,803) | (\$759) | \$1,308 | \$25,876 |
| Year End Total Fund Balance | \$14,075 | \$11,272 | \$10,513 | \$11,821 | \$37,697 |
| Less: Appropriated Fund Balance | \$10,500 | \$10,500 | \$12,000 | \$11,000 | \$11,000 |
| Unexpended Surplus/(Deficit) | \$3,575 | \$772 | (\$1,487) | \$821 | \$26,697 |
| Ensuing Year Budgeted Appropriations | \$28,775 | \$28,775 | \$29,800 | \$27,600 | \$26,119 |
| Unexpended Fund Balance as a Percentage of Ensuing Year's Appropriations | 12% | 3% | 0% | 3% | 102% |

While the general town-outside-village fund experienced a general decline in fund balance from 2008 through 2011, an operating deficit of \$11,000 was planned for 2012, since fund balance was appropriated in the 2012 adopted budget. However, fund balance increased dramatically in 2012 because sales tax⁷ revenues allocated to the general town-outside-village fund were \$26,500 more than budgeted, unallocated insurance expenditures were overestimated by more than \$5,000 and zoning contractual expenditures were overestimated by more than \$4,000.

⁶ The 2012 budget included a budgeted revenue for State revenue sharing aid of \$8,000 in the general town-wide fund and \$9,000 in the highway town-wide fund. The \$820 in excess of the total amount budgeted was credited to the general town-wide fund when received in 2013.

⁷ Sales tax revenues are budgeted for in both the general and highway town-outside-village funds. In 2012, the general town-outside-village fund budget included \$13,500 from this source; actual sales tax revenues allocated to the general town-outside-village fund were \$40,043.

Table 4: Highway Town-Outside-Village Fund Balance

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|-----------|-----------|-----------|------------|------------|
| Beginning Total Fund Balance | \$44,442 | \$81,688 | \$117,336 | \$212,797 | \$174,258 |
| Actual Revenues | \$244,722 | \$218,183 | \$256,181 | \$214,158 | \$175,272 |
| Actual Expenditures | \$207,476 | \$182,535 | \$160,720 | \$252,697 | \$186,116 |
| Operating Surplus/(Deficit) | \$37,246 | \$35,648 | \$95,461 | (\$38,539) | (\$10,844) |
| Year End Total Fund Balance | \$81,688 | \$117,336 | \$212,797 | \$174,258 | \$163,414 |
| Less: Appropriated Fund Balance | \$6,000 | \$6,000 | \$13,000 | \$30,000 | \$30,000 |
| Unexpended Surplus Funds | \$75,688 | \$111,336 | \$199,797 | \$144,258 | \$133,414 |
| Ensuing Year Budgeted Appropriations | \$216,300 | \$217,800 | \$218,100 | \$218,840 | \$229,580 |
| Unexpended Fund Balance as a Percentage of Ensuing Year's Appropriations | 35% | 51% | 92% | 66% | 58% |

In the highway town-outside-village fund, an operating deficit of \$30,000 was planned for 2012, since fund balance was appropriated in the adopted budget. However, appropriations were over-estimated by nearly \$33,000 while sales tax revenues were overestimated by more than \$14,000. The net effect was an operating deficit of over \$10,000. After adjusting for the highway machinery bookkeeping errors from 2008 and 2011, highway town-outside-village unexpended surplus funds will total \$209,319 at December 31, 2012, which is 91 percent of that fund's 2013 budgeted appropriations.

The Board eliminated the tax levy for the general town-outside-village fund but not for the highway town-outside-village fund. The maintenance of excessive fund balances in the general and highway town-outside-village funds is an unnecessary burden on the taxpayers outside the village. The Board can reduce their taxes by appropriating fund balance, re-allocating sales tax revenues, or by creating statutorily authorized reserves for particular purposes.

If the Board eliminates the real property tax levy in the highway town-outside-village fund (\$24,700 for 2012), as has been done in the general town-outside-village fund, sales tax revenue could be used for town-wide purposes.⁸ Such purposes could include helping to fund purchases such as machinery. As an alternative, the Board may adopt a resolution⁹ exempting Town taxpayers that reside in the village from funding machinery (Item 3) and/or snow and miscellaneous charges

⁸ When a town and all villages in the town have elected to receive their respective sales and use tax in cash, the town's share must first be applied to town-outside village activities. If any balance of sales and use tax remain after the elimination of town-outside village real property taxes, such balance may, in the discretion of the town board, be applied toward any combination of the following: (a) the reduction of general town-wide taxes; (b) the reduction of county taxes levied in the town-outside the village area; (c) additional town-outside village activities.

⁹ Highway Law

(Item 4). After adopting such a resolution, the Board must budget for and expend the respective costs in the highway town-outside-village fund.

Recommendations

1. The Supervisor should distribute the “Year-to-Date” reports to Board members for them to monitor budgetary activity and the financial condition of the funds.
2. The Supervisor should correct the accounting records to properly reflect the amount the highway town-wide fund owes the highway town-outside-village fund and the Board should develop a plan to repay these funds and address the deficit.
3. The Board should use the surplus fund balance in the general and highway town-outside-village funds in a manner that benefits Town taxpayers, such as reducing property taxes, or for other statutorily authorized purposes.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Town of Dayton

9100 Route 62
South Dayton, New York 14138
Tel./Fax 716-532-3758

Dayton Town Hall is located on Route 62 - Markhams



Where Rural Life Is Appreciated

The following comments are in response to the draft audit.

Financial Condition of the Town of Dayton:

I have followed thru with the initial draft audit recommendations on Budget Monitoring. The bookkeeper's monthly year to date reports are now distributed to the Town Board members for review on a monthly basis.

Also, as per audit recommendation, the Lighting District is recorded on a separate abstract.

Comments on Excessive Fund in the Highway accounts:

A certain level of cash on hand is needed to pay highway invoices in a timely manner. For example, CHIPS funding cannot be received until the highway road work is completed. Invoices generated from the materials used to complete the work (approx. \$50,000) are due way before the CHIPS money enters the Town's bank account.

Another example of the need for surplus money is employee personal time (sick days, loyalty days, vacation days, etc). A surplus of approximately \$25,000 in the highway account is needed to cover this accumulated time, which the employee can request at will.

2008-20011 Machinery Bookkeeping errors:

Because of the erroneous accounting entries made by the previous bookkeeper in the highway funds, the accounting records will have to be corrected and the Board will have to develop a plan to address the problems created by the errors.

Mark Smith, Supervisor

8-5-2013

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 risk 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 condition, cash receipts and disbursements, payroll and personal services, Town Clerk activities, and Justice Court activities.

During our initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents such as Town policies, 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, and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial condition for further audit testing. We examined the Town's records and reports for the period January 1, 2008, to December 31, 2012. Our procedures included the following:

- We interviewed appropriate Town officials to obtain an understanding of the organization and the Town's accounting system.
- We compared Annual Update Document (AUD) fund balance reported amounts to the Town's general ledgers and bank statements to verify reliability.
- We compared AUD reported revenues to the Town's general ledgers, cash receipts journals, and real property and sales tax receipts to verify reliability.
- We compared AUD reported expenditures to the Town's general ledgers, cash disbursements journals, abstracts, and vouchers to verify reliability.
- We reviewed the tax warrants.
- We compared actual revenues to actual expenditures to determine if there were operating surpluses or deficits.
- We performed budget to actual comparisons of revenues and expenditures to determine what caused the operating surpluses or deficits.

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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