



Town of Humphrey

Financial Management

Report of Examination

Period Covered:

January 1, 2008 — April 8, 2013

2013M-116



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Humphrey, 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 Humphrey (Town) is located in Cattaraugus County and has a population of approximately 700 residents. The Town provides various services to its residents, including road maintenance, snow removal, and general Town support. The Town's 2013 budgeted appropriations total \$557,004, 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 and reasonable 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 it is adopted.

Objective

The objective of our audit was to evaluate the Town's budgeting practices. Our audit addressed the following related question:

- Does the Board ensure budgets are reasonable and supported?

Scope and Methodology

Our overall goal was to assess the reasonableness of the budgets adopted by the Board. To accomplish this, we assessed procedures and estimates used to create the budgets for the period January 1, 2008, through April 8, 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 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 the findings and recommendation and indicated that they would take 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 Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers that fund its operations. The Board must adopt structurally balanced budgets for all operating funds that provide sufficient revenues to finance recurring expenditures. The Town may retain a reasonable portion of fund balance to use as a financial cushion in the event of unforeseen financial circumstances. Although there is no fixed percentage that is allowed, good business practice dictates that the Town only retain a reasonable amount for unforeseen needs.

When a Town has excessive fund balance, the Board can appropriate it to reduce taxes and/or establish reserves. The Board can legally reserve portions of fund balance to finance future costs for a variety of specified purposes. It is important for the Board to adopt budgets that include realistic estimates of revenues and expenditures, and use surplus fund balance as a funding source, when appropriate. It is also important that long-term plans be in place to ensure that moneys accumulated in operating funds are used for appropriate and authorized purposes. If the Board follows these practices, it will raise only the necessary amount of real property taxes.

We reviewed the general and highway fund budgets and found that overall, they were reasonable and supported, except for sales tax and fund balance estimates in the general fund. The Board has been adopting budgets that consistently underestimate sales tax revenues as indicated in Table 1:

Fiscal Year	Budget	Actual	Variance
2008	\$25,000	\$66,804	\$41,804
2009	\$25,000	\$75,720	\$50,720
2010	\$25,000	\$73,624	\$48,624
2011	\$25,000	\$67,574	\$42,574
2012	\$35,000	\$64,635	\$29,635

We asked Town officials why sales tax estimates had not been adjusted until 2012 and they indicated that it has been the practice of the Town to build a “cushion” into the budget and to be very conservative. While the Board increased the estimate by \$10,000 for 2012, a significant variance still resulted. The Board again estimated sales tax at \$35,000 in the 2013 adopted budget.

On an annual basis, the Board appropriates fund balance as a financing source to balance the budget. However, the Town’s

operations generally resulted in surpluses, where revenues exceeded expenditures, due primarily to the underestimation of sales tax. Because of this, fund balance was not needed to finance operations. From 2008 to 2011, the Board appropriated \$25,000, \$35,000, \$50,000, and \$52,000, respectively, in the general fund budget. In 2012, although an operating deficit occurred, the Town only used approximately \$1,000 out of the \$45,289 of fund balance budgeted. The Board has continued this practice in 2013; the budget includes an appropriation of fund balance in the general fund of \$49,958, which resulted in a tax levy of \$26,724.

Due to the operating surpluses experienced by the Town, unexpended surplus funds¹ have increased even further in the general fund, as indicated in Table 2:

Fiscal Year End	Unexpended Surplus Funds	Ensuing Year's Budget	% of Ensuing Year's Budget
2008	\$142,583	\$119,377	119%
2009	\$149,698	\$133,819	112%
2010	\$166,941	\$116,508	143%
2011	\$176,503	\$120,139	147%
2012	\$168,387	\$122,957	137%

Since the Town has accumulated a substantial amount of resources to address unforeseen financial circumstances, it would be fiscally prudent and more transparent if the Board adopted budgets that more accurately reflected expected revenues and expenditures. If the Board intends to reduce the fund balance, to provide tax relief to its residents, it should consider a graduated plan, to guard against significant fluctuations.

Recommendation

1. The Board should develop and adopt budgets that include more realistic estimates for revenues and fund balance.

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, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

**Town of Humphrey
4500 Humphrey Road
P.O. Box 100
Great Valley, NY 14741**

Carrie L. Childs, Supervisor

July 8, 2013

Robert E. Meller, Chief Examiner
Buffalo Regional Office
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

RE: OSC Audit Report of the Town of Humphrey
Response to Preliminary Draft Findings

Dear Mr. Meller:

The Preliminary Draft Report of Examination for the period January 1, 2008 through April 8, 2013 was received from your office on June 16, 2013. Your office has identified one item in the Town's financial management of the General Fund, that being the practice of underestimating sales tax revenue in the annual budget.

Your recommendation states:

"The Board should develop and adopt budgets that include more realistic estimates for revenues and fund balance."

The Town Board agrees but also believes it is prudent to build in a "cushion" for unforeseen expenditures or emergencies. Fund balance is used to help fund the budget.

This audit response letter shall also serve as our Corrective Action Plan (CAP). Following is the corrective action to be implemented:

- During the annual budget preparation, the Town Board will more realistically budget sales tax revenue in 2014.

Sincerely,

Carrie L. Childs
Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Town's financial condition and to identify areas where the Town could realize efficiencies and protect assets from loss or misuse. 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. During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents, such as Town policies and procedures, 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 on the reported objective and scope by selecting for audit those areas most at risk. We selected financial management and related budget practices for further audit testing.

To achieve our audit objective and obtain relevant audit evidence, our procedures included the following:

- We reviewed Board minutes and interviewed Town officials to determine budgeting procedures.
- We compared budget-to-actual year-end reports with source documents and the Annual Update Document to determine if evidence was sufficiently reliable.
- We reviewed operating results for the 2008 through 2012 fiscal years to identify significant trends.
- We examined variances in budget-to-actual year end reports, interviewed Town officials to determine the cause and requested supporting schedules.
- We analyzed fund balance for the general and highway funds to ensure amounts were reasonable.

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.

APPENDIX C

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