



Town of Laurens

Budgeting Practices

Report of Examination

Period Covered:

January 1, 2012 — May 20, 2013

2013M-204



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
BUDGETING PRACTICES	4
Recommendations	5
APPENDIX A Response From Local Officials	6
APPENDIX B Audit Methodology and Standards	9
APPENDIX C How to Obtain Additional Copies of the Report	10
APPENDIX D Local Regional Office Listing	11

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 Laurens, entitled Budgeting 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 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 Laurens (Town) is located in Otsego County, is 42 square miles in size, and serves approximately 2,400 residents. The elected Town Board (Board) is the legislative body responsible for managing Town operations, including maintaining sound financial condition. The Town Supervisor (Supervisor) is a member of the Board and serves as chief executive officer. The Town's budgeted appropriations for the 2013 fiscal year totaled approximately \$275,000 for the general fund and \$998,000 for the highway fund. Appropriations were funded primarily with real property taxes. The Town provided services for its residents, including road maintenance, snow removal, and general government support. In September 2011 (and previously in June 2006), the Town experienced major flooding.

Objective

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

- Did the Board prepare reasonable budget estimates?

Scope and Methodology

We examined financial records and reports relating to the Town's budgeting for the period January 1, 2012, to May 20, 2013. We expanded our scope back to January 1, 2008, to review the Town's results of operations.

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 is 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 agreed with our recommendations and 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 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.

Budgeting Practices

It is essential that the Board develop annual operating budgets that consider historical activity and/or known and necessary expenditure estimates. These budgets must also include reasonable estimates of revenues and other financing sources to pay for planned expenditures. When significant uncommon expenditures occur, they need to be recorded separately to enable the Board to budget properly for the subsequent year. It is important that these estimates be presented as clearly and accurately as possible in order to ascertain fund balance¹ that is available to appropriate.² Additionally, Town officials should maintain a reasonable amount of fund balance, but not so much as to put a burden on the taxpayers.

The Board did not prepare reasonable budget estimates. The Board received an extra \$1.7 million in unbudgeted revenues from 2008 to 2012. Of this amount, \$1.3 million is related to flood revenues. The Board budgeted \$6.2 million in expenditures over the same time period and actually spent \$6.8 million, resulting in excess spending of \$630,000. The Supervisor does not segregate flood-related expenditures in the accounting records, so it could not be determined how much of this difference was attributable to the flood.

As a result, the combined unassigned fund balance for all funds had risen to more than \$577,000 by the end of 2012, which was 45 percent of the ensuing year's budget. Because flood-related expenditures are not segregated in the accounting records or the adopted budgets, there is not a base-line level for routine expenditures, which makes it difficult to adopt proper budgets in the subsequent year.

The Supervisor told us that, while he knew the Town would receive reimbursements for flood-related expenditures, he was unsure when the Town would actually receive the money. The Supervisor developed budgets that included an increase in appropriations to address repairs made necessary by the flood.

While we recognize the difficulty the Supervisor faced while preparing budget estimates in the wake of disasters, the Town Board adopted budgets that increased real property taxes to finance flood-related expenditures for which reimbursement was eventually received, causing an increase in fund balance without a planned purpose.

¹ The difference between revenues and expenditures accumulated over time

² The planned use of fund balance to maintain a reasonable level

Recommendations

1. Town officials should develop budgets that reflect known expenditure needs and current revenues to finance those needs. Town officials should account for flood-related revenues and expenditures separately from normal operating revenues and expenditures in order to facilitate the accuracy in budgeting for normal operations and to better quantify the effects of flooding.
2. Town officials should establish procedures to govern budgeting practices that include determining a reasonable level of fund balance to be maintained.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



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Town of Laurens

Unit Name: Laurens Township
Audit Report Title: Budgeting Practices
Audit Report Number: 2013M-204

To: Office of the State Comptroller, Division of Local Government and School Accountability

The Laurens Town Board is submitting a joint Audit Response Letter and Corrective Action Plan.

The Laurens Town Board accepts and agrees with the 2013 Budget Practice audit findings.

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed.

Audit Recommendation:

Town officials should develop budgets that reflect known expenditure needs and current revenues to finance those needs. Town officials should account for flood related revenues and expenditures separately from normal operating revenues and expenditures in order to facilitate the accuracy in budgeting for normal operations, and to better quantify the effects of flooding.

Implementation Plan of Action(s):

- *New accounts have been created in the Town's financial record keeping software that enables the separation of one-time and emergency-related revenues and expenditures. This change will facilitate budgeting for normal operations and better quantify the effects of one-time and emergency situations.*

Implementation Date:

- *This action plan has already been completed.*

Person Responsible for Implementation:

- *Town Supervisor and Town bookkeeper.*

Audit Recommendation:

Town officials should establish procedures to govern budgeting practices that include determining a reasonable level of unexpended surplus funds to be maintained.

Implementation Plan of Action(s):

- *The Laurens Town Board has met and determined that the reasonable level of surplus funds for the Town of Laurens is in the \$250,000 range. In situations where the surplus funds exceed this identified level the Town Board will apply the excess in the form of Unexpended Balance amounts in forthcoming annual budgets in a fashion that meets Town financial needs and maintains stability in the tax rates. In situations where the surplus funds drop below this identified level the Town Board will review budgetary allocations and make the necessary decisions to build the surplus funds while maintaining stability in tax rates.*

Implementation Date:

- *This practice for adjusting the amount of unexpended surplus funds is already in practice and is being followed to reduce the excess back towards the identified level while maintaining stability in tax rates.*

Person Responsible for Implementation:

- *Town Supervisor and Town Board.*

Signed:

Name *OSCAR OBERMIRCHER*
Date *LAURENS TOWN SUPERVISOR*
10/22/13

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We examined the Town's budgeting practices for the period January 1, 2012, to May 20, 2013. We expanded our scope to review the Town's results of operations back to January 1, 2008. In order to accomplish the objective of this audit and to obtain relevant audit evidence, our procedures included the following:

- We interviewed Town officials to gain an understanding of the policies and procedures used to prepare and monitor the budget.
- We compared revenue and expenditure budget estimates to actual results from fiscal years 2008 to 2012.
- We summarized fund balance by fund and in total from fiscal years 2008 to 2012 and analyzed for trends. We compared unassigned fund balance to the ensuing year's budgeted appropriations to determine its reasonableness.

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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