



Town of Hume Financial Management

Report of Examination

Period Covered:

January 1, 2009 — February 11, 2015

2014M-333



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2015

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 Hume, 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 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 Hume (Town) is located in Allegany County and has a population of approximately 2,070. The Town is governed by an elected Town Board (Board), which comprises four Board members and a Town Supervisor (Supervisor). The Board is the legislative body responsible for the Town's overall management, which includes providing oversight of Town operations and finances and adopting and monitoring the budget to ensure the Town's sound financial position.

The Supervisor is the chief fiscal officer and is responsible for receiving and disbursing Town funds and providing the Board with timely and accurate financial reports. The Supervisor, as budget officer, is also responsible for compiling initial budget estimates and preparing the tentative budget, subject to the Board's approval.

The Town provides various services to its residents, including road maintenance, snow removal, fire protection, general government support, water supply and wastewater services. The Town's 2015 general and highway fund appropriations total approximately \$1.1 million and are funded primarily with real property taxes and State aid.

Objective

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

- Did the Board properly manage Town finances by ensuring that budgets were realistic and structurally balanced and by planning for and using fund balance?

Scope and Methodology

We examined the Town's financial records for the period January 1, 2009 through February 11, 2015.

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 Town Clerk's office.

Financial Management

A town's financial condition is a primary factor in determining its ability to continue providing services to residents. The Board is accountable to taxpayers for using Town resources and is responsible for effective financial planning and management of Town operations. A key measure of a town's financial condition is its level of unexpended surplus funds.¹ When maintained at reasonable levels, these funds can provide cash flow, help finance the next year's operations or help manage unexpected costs. Therefore, it is essential that the Board and Town officials manage unexpended surplus funds responsibly. To fulfill this responsibility, the Board and Town officials must develop realistic and structurally balanced budgets that provide sufficient recurring revenues to finance recurring expenditures.

Overall, the Board properly managed the Town's finances. However, we identified improvement opportunities and areas the Board should continue to monitor.

General Fund – During 2014, the Town incurred an operating deficit of approximately \$45,000. However, because the Board transferred \$162,000 from a general fund capital reserve to unexpended surplus funds, the general fund's unexpended surplus funds increased to \$208,000 as of December 31, 2014. The Supervisor indicated that the Town no longer needed the capital reserve and the Board appropriately adopted a resolution, subject to permissive referendum, to transfer capital reserve money to unexpended surplus funds in the general fund, leaving the capital reserve with a balance of \$72,000.

During 2014, the Board overestimated expenditures by more than \$72,000 (17 percent) and overestimated revenues by more than \$66,000 (18 percent). The Supervisor stated that the Town reduced spending during the year to compensate for a revenue shortfall and reduce the operating deficit. The Board was facing a much larger deficit than planned because the Town did not receive a \$76,000

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).

payment in lieu of taxes (PILOT) from a local business. At the end of our fieldwork in February 2015, the Town appeared to reach an agreement with the local business to create a new PILOT. However, as the agreement has not yet been signed by either party, the PILOT details have not been released to the public.

The 2015 general fund budget includes appropriations that are \$15,000 more than 2014 actual expenditures and estimated revenues that are \$59,000 more than 2014 actual revenues. Estimated revenues include \$70,000 for PILOT revenues. Consequently, if the Town again does not receive the PILOT in 2015, the Board will need to reduce expenditures or identify additional funding sources.

The Supervisor indicated that he and the Board did not use the prior years' budget-versus-actual operating results when preparing and adopting budgets, but primarily relied on the prior years' budgets. As a result, budget estimates did not closely mirror actual revenues and expenditures and the Board appropriated more fund balance than necessary each year to fund the next year's operations.

Although the Board discontinued appropriating the general fund's fund balance in its 2015 budget, from 2009 through 2014, the Board relied on fund balance to finance part of Town operations, appropriating an average of more than \$90,000 each year. The Board used a significant amount of appropriated funds each year, reducing unexpended surplus funds in the general fund from more than \$304,500 as of January 1, 2009 to less than \$40,500 as of December 31, 2013.

Highway Fund – The Board consistently relied on fund balance to finance a portion of highway fund operations (from 2009 through 2014), by appropriating approximately \$75,000 each year. As a result, unexpended surplus funds decreased from more than \$331,500 as of January 1, 2009 to less than \$110,000 as of December 31, 2014. Although the highway fund appears to have a reasonable amount of unexpended surplus funds (more than 16 percent of the 2015 adopted budget), because the Board continually relied on fund balance to fund highway operations, the highway fund's financial condition could eventually deteriorate. The Board appropriated \$50,000 of fund balance to finance a portion of 2015 highway fund operations.

The Board planned operating deficits for 2009 through 2014 and appropriated a total of \$447,928 to fund highway operations. However, because the Board did not adopt realistic budgets and overestimated expenditures and underestimated revenues, the highway fund incurred operating surpluses in 2009 and 2013. Although the Board consistently underestimated revenues, expenditures were overestimated in 2009,

2011, 2013 and 2014 by more than \$264,000. These variances were spread evenly throughout various budget line items.

During 2014, the highway fund incurred an operating deficit of \$91,414 which reduced unexpended surplus funds to approximately \$109,600. The operating deficit occurred because the Town did not receive the PILOT previously mentioned, and Town officials had intended on using almost \$76,000 of this revenue to finance highway operations. Additionally, Town officials purchased several large pieces of highway equipment for approximately \$257,900 but did not include an appropriation in the 2014 budget or identify a financing source for these purchases.

According to Town officials, the Board has relied on fund balance to finance operating expenditures in both the general and highway funds because it did not want to raise real property taxes or reduce services. The Board increased the general fund tax levy by 23 percent (4 percent each year), or \$43,000 in total over the past six years (2009 through 2014). However, these increases have not been sufficient to replenish the general fund's unexpended surplus funds and the Town would have exhausted its remaining balance in 2014 if the Board had not transferred the funds from the capital reserve.

Continually relying on fund balance as a financing source results in a budget gap when these funds are depleted. Although a reasonable amount of unexpended surplus funds remains in the general and highway funds, the Board and Town officials need to actively monitor the budget and financial activity to ensure that the Town's financial condition does not continue to deteriorate. More importantly, the Board will need to ensure that future general and highway fund budgets include more reasonable estimates and are structurally balanced so recurring expenditures are financed with recurring revenues.

Recommendations

The Board should:

1. Adopt structurally balanced budgets that fund recurring expenditures with recurring revenues.
2. Continue to negotiate for a resolution of the PILOT and ensure its budgets reflect the agreed upon amounts.

The Supervisor should:

3. Review budget-versus-actual reports and past trends in order to develop budgets that are based on prior actual results and expected future changes.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Dennis L. Ricketts, Supervisor
Town of Hume
P.O. Box 302
Fillmore, New York 14735

May 18, 2015

Office of NYS Comptroller
110 State Street, 15th Floor
Albany, New York 12236

To Whom It May Concern:

The Town of Hume would like to thank The Office of the State Comptroller, Division of Local Government and School Accountability for the audit they completed for our town in 2015. The audit staff was very courteous and helpful throughout the process – pointing out proper procedures that the Town Board was not familiar with.

The Town of Hume Board agrees with the findings of the Comptroller's audit.

The plan of the Town Board in past years was to stay under the 2% tax cap. This we did; however, we realize more cuts should have been made in the Highway and General Funds rather than relying on Fund Balance to meet our operating expenditures.

In our 2015 budget, we used no Fund Balance for the General Funds and a much smaller Fund Balance amount for the Highway Budget. In future years, the Town Board will follow the Comptroller's suggestion by not relying heavily on the Fund Balance to stay under the 2% tax cap for our budget.

An agreement was reached with the [REDACTED] and on May 5, 2015, we received the first half of the 2014 Pilot payment of \$79,006.83 with the balance to be spread over the next 4 years. The 2015 payment is scheduled for June 2015.

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A complete corrective action plan will be sent to the Office of State Comptroller within 60 days. Thank you again for your help in making us aware of better procedures in our budget management process.

Sincerely,

Dennis L. Ricketts, Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to assess the Town's financial operations. To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed Town officials and employees to gain an understanding of the Town's budget development process and fund balance management practices.
- We reviewed policies and procedures and relevant financial records and reports.
- We reviewed Board minutes from January 1, 2009 through August 31, 2014 for actions relevant to annual audits, budget practices, budget monitoring and financial condition.
- We reviewed the Annual Update Document (i.e., annual financial reports) filings submitted to the Office of the State Comptroller to determine if they were timely, accurate and complete.
- We reviewed annual financial reports and budget-to-actual reports and analyzed changes in fund balance as a result of operations.
- We determined how accurate revenue and appropriation estimates were by comparing adopted budgets to financial reports showing actual results of operations for 2009 through 2014.
- We analyzed significant budget-to-actual variances and inquired of Town officials how certain budget estimates were developed.
- We reviewed and analyzed revenue and expenditure trends for 2009 through 2014.
- We reviewed and compared the amount of fund balance used to the amounts appropriated in adopted budgets.
- We reviewed monthly budget status reports for January 2009 through August 2014 to determine if budget appropriation accounts were overexpended. If so, we documented the month when an account became overexpended and when, or if, budget transfers were made to amend the budget appropriations.
- We reviewed the 2015 adopted budget.
- We reviewed the real property tax levy documentation for the last six years (2010 through 2015) to determine if there were any increases or decreases.

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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