

# Town of Stanford

## Financial Management

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SEPTEMBER 2021

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Town of Stanford

### Audit Objective

Determine whether the Town of Stanford (Town) Board properly managed the Town's financial condition and adopted realistic budgets.

### Key Findings

The Board did not properly manage the Town's financial condition and did not adopt realistic budgets.

The Board:

- Adopted an unbalanced 2020 budget that was missing information and misleading, which resulted in a 58 percent decrease in real property taxes.
- Adopted a 2021 budget with a \$749,159 increase in the tax levy over the prior year and levied more taxes than necessary to fund general fund operations.
- Exceeded its fund balance policy limit by \$645,366.

### Key Recommendations

- Adopt balanced budgets and ensure that the budgets are transparent and include all necessary information.
- Ensure that estimated revenues and appropriations are reasonable and based on historical data or known trends.

Town officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action. Appendix B includes our comments on an issue that was raised in the Town's response letter.

### Background

The Town of Stanford, located in Dutchess County, is governed by an elected Town Board (Board) composed of four Board members and a Town Supervisor (Supervisor).

The Board is responsible for the general management and control of financial operations, including adopting the annual budget and establishing financial policies.

The Supervisor serves as the chief executive officer, chief fiscal officer and budget officer and is responsible for day-to-day financial operations.

#### General Fund Quick Facts

<b>Unassigned Fund Balance as of December 31, 2020</b>	\$1,031,676
<b>2021 Appropriations</b>	\$1,297,157
<b>Population</b>	3,729

### Audit Period

September 1, 2019 – December 31, 2020. We extended the audit period back to January 1, 2016 to analyze trends, operating results and real property tax levies.

# Financial Management

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The Town held a public budget hearing on November 11, 2019 where the Board discussed an 11 percent real property tax levy decrease. However, Town officials decreased the real property tax levy by 58 percent before approving and adopting the budget on November 14, 2019. Officials, who took office in January 2020, contacted the New York State Comptroller's office to raise concerns regarding the integrity of the 2020 adopted budget. Other newly elected officials included two Board members who also took office in January 2020. The findings in this report pertain to the current and prior administration.

## What Is Effective Financial Management?

A board is responsible for making financial decisions that are in the best interest of the town and its taxpayers. To properly manage financial condition, a board should adopt reasonably estimated and structurally balanced budgets based on historical data or known trends. Further, adequate training on their fiduciary and fiscal responsibilities, coupled with regular, effective communication on financial issues is critical to the success of the budget process.

In preparing the budget, a board must estimate the amounts that will be spent and received and the amount of fund balance that may be available to fund appropriations. A fund balance policy provides guidance on how much fund balance should be retained and accurate budget estimates help ensure the tax levy is not greater than necessary.

New York State Town Law requires that the preliminary budget show, by funds, proposed appropriations, and estimated revenues, estimated fund balances, together with a breakdown of fund balance estimated for encumbrances, amounts appropriated for the next year's budget, amounts reserved, including properly established reserve funds, the remaining estimated fund balance for each fund and the amount of taxes to be levied.

## The Board Adopted an Unbalanced 2020 Budget

Town officials adopted an unbalanced annual budget for 2020 without reviewing the document presented for a vote. The budget presentation was misleading and did not contain all the information required or that had been provided in prior years. For example, the budget did not contain estimated fund balances, together with a breakdown of fund balance estimated for encumbrances, amounts appropriated for the next year's budget or the remaining estimated fund balance for each fund.

Further, in prior years the budget was more transparent and included a summary page that outlined by each fund the appropriations, estimated revenues and amount to be raised by real property taxes. However, we were unable to determine why a summary page was not included as part of the 2020 budget.

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To properly manage financial condition, a board should adopt reasonably estimated and structurally balanced budgets based on historical data or known trends.

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Because a summary page was not provided and to gain a clearer understanding of numbers in the 2020 budget, we prepared a summary of the 2020 actual budget adopted for the general and highway funds, which clearly showed an unbalanced budget (Figure 1).

**Figure 1: Recreated 2020 Budget Summary**

Fund	2020 Appropriations	(Less) Estimated Revenue	(Less) Appropriated Fund Balance	Amount To Be Raised by Taxes	Shortfall <sup>a</sup>
General	\$1,347,728	\$945,260	\$0	(\$547,532)	\$950,000
Highway	1,186,331	220,000	0	966,331	0
<b>Totals</b>	<b>\$2,534,059</b>	<b>\$1,165,260</b>	<b>\$0</b>	<b>\$418,799</b>	<b>\$950,000</b>

a) We added a column to our summary to show the shortfall (not included in prior year's budget summary page).

Because the amount of fund balance to be appropriated was not included in the budget, the adopted budget was not balanced and contained a shortfall of \$950,000. Although the Town had \$1.4 million of general fund balance<sup>1</sup> available at year-end 2019, it is unclear whether Town officials intended to appropriate fund balance to cover the entire shortfall of \$950,000 because no supporting documentation was maintained for appropriated fund balance in the budget. Alarmingly, Board members were unaware of the contents of the budget that they passed and the fact that the budget was not balanced.

In addition, the effect of presenting a negative amount to be raised by taxes for the general fund resulted in a 58 percent decrease in real property taxes overall. The budget document showed the highway fund required \$966,331 to be raised by real property taxes to fund appropriations; however, because the amount to be raised by taxes for the highway fund was erroneously netted with the general fund's negative tax levy amount, only \$418,799 in real property taxes was raised to fund operations.

As a result of raising only \$418,799 in real property taxes, a budgetary deficit of \$547,532 was created in the highway fund. While the highway fund ultimately received more revenues than anticipated in 2020, the Town had to subsidize a portion of the highway shortfall with an interfund transfer of \$100,000 from the general fund.

Several Board members told us they were aware the budget contained an 11 percent decrease in real property taxes as discussed throughout the budget process. However, officials cannot explain how the adopted budget came to

<sup>1</sup> The Highway Fund had no fund balance for 2017 through 2020.

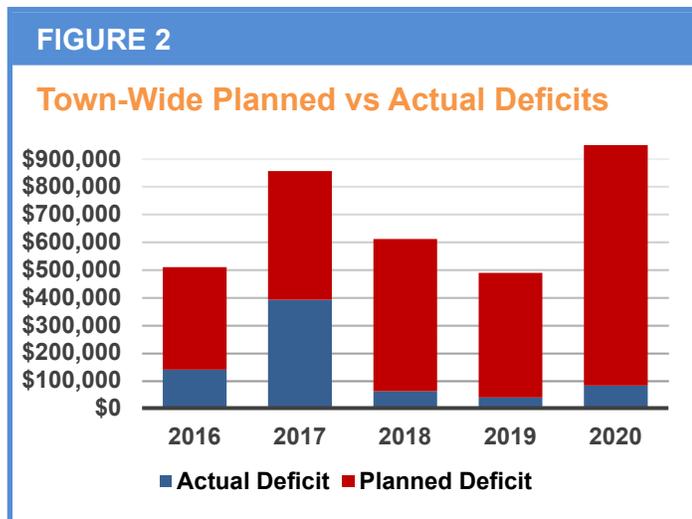
include a 58 percent decrease. The budget vote began as the budget document was being provided to Board members and continued without further review. As a result, not enough real property taxes were raised to support 2020 operations. Therefore, the Board needed to use fund balance that was not included in the adopted budget. Further, the Board adopted the 2021 annual budget, incorporated appropriated fund balance of \$200,000 and raised the tax levy by \$749,159.

### The Board Needs to Improve its Budgeting Practices

We reviewed the Town’s operating results for 2016 through 2020 and determined that the Board’s budgeting practices resulted in accumulated unassigned general fund balance equal to 80 percent of the 2021 budget.

The Board annually appropriated fund balance as a financing source in each of the last five years (2016 through 2020), which should have resulted in annual operating deficits

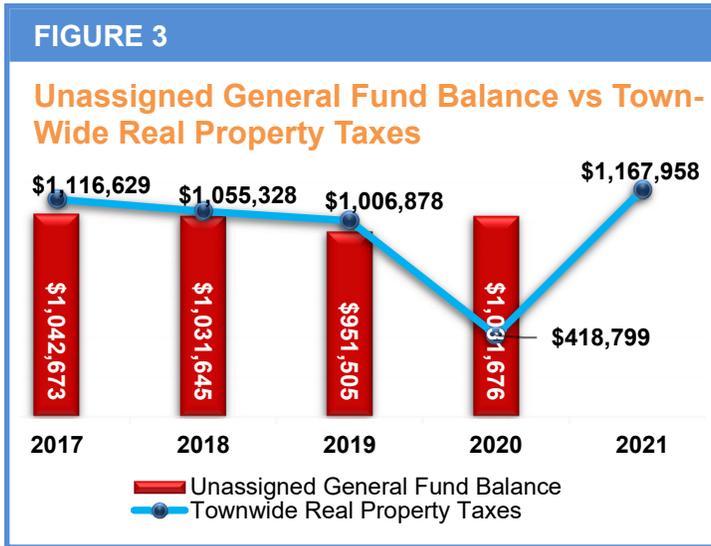
equal to the amounts of funds appropriated. However, the Board adopted budgets that overestimated appropriations and underestimated revenues over these years, which resulted in net operating deficits of \$710,942 instead of planned deficits totaling approximately \$2.6 million over these years (Figure 2).



Therefore, appropriated fund balance totaling just over \$1.9 million was not used as planned. Annually appropriating unneeded fund balance to finance operations diminishes the financial transparency to the taxpayers.

The Board adopted the 2021 budget with a total town-wide real property tax levy of \$1,167,958 which was a \$749,159 increase over the prior year and only appropriated fund balance of \$200,000.

Our review of the 2020 operating results showed that the Town received more revenues and had less expenditures than planned and ended the year with a deficit of \$81,544 instead of the \$950,000 expected. Based on comparison of the



unassigned general fund balance<sup>2</sup> to the town-wide real property tax levy, the Board levied more taxes for 2021 than necessary to sustain operations and collected real property taxes while carrying an unreasonably high fund balance (Figure 3).

Town officials said they did not have accurate records available at the time the 2021 budget was being created.

The Town Supervisor took office in January 2020 and began developing the budget by August. Although officials were working on corrective action in updating accounting records, they should have been monitoring finances throughout the year which would have required accurate records prior to the point when the Board adopted the 2021 budget. Accurate accounting records would have assisted the Board in assessing available fund balance when adopting the budget and could have avoided the significant increase in taxes.

However, they believed they needed to stabilize taxes after the significant real property tax levy decrease in the 2020 budget. Further, officials told us that without accurate information, they based the tax levy on a prior year's levy. As a result, the Board adopted the 2021 annual budget incorporating appropriated fund balance of \$200,000 and raised the tax levy by \$749,159.

Because of the Board's past poor budget practices and inaccurate records, more real property taxes were levied than necessary in the 2021 budget placing an unnecessary burden on taxpayers. Further, as of December 31, 2020, the Town's unassigned general fund balance was \$1,031,676, which was 80 percent of general fund appropriations for 2021.

### Fund Balance Exceeded the Fund Balance Policy Limits

The Board adopted a fund balance policy, which states the Town will strive to reach and maintain a goal of fund balance at a rate of 35 percent of the prior year's expenditures. In accordance with this policy, we calculated that 35 percent

<sup>2</sup> Ibid

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of expenditures for the prior year (2019) to be \$386,310. As of December 31, 2020, unassigned general fund balance totaled \$1,031,676, or \$645,366 more than the policy's suggested limit.

Because the financial records were updated, officials are aware that fund balance exceeded the intended amount for 2020 and said they plan to reduce fund balance to the intended target through planned capital purchases and needed repairs to Town buildings in 2021.

### **The Board Did Not Properly Manage Town Finances**

The Board is responsible for the Town's financial management. This responsibility includes adopting accurate and balanced budgets, monitoring operations against the budget throughout the year and monitoring fund balance levels.

The Board did not properly manage Town finances because they adopted an unbalanced budget for 2020, did not properly manage the budget, adopted a 2021 budget without accurate information and raised excess taxes as a result. The current Supervisor told us that the current Board members had not attended ongoing training in financial management to keep them informed of the important financial responsibilities of the Board. Attending this training could have helped prevent adopting an unbalanced budget for 2020 and a budget with an excess tax levy for 2021.

### **What Do We Recommend?**

The Board should:

1. Attend training for budgeting and financial management.
2. Adopt balanced budgets and ensure that the budgets are transparent and include all necessary information.
3. Ensure that budget estimates of revenues and appropriations are reasonable and based on historical data or known trends.
4. Monitor operations against the budget throughout the year and take action to address any unexpected variances.
5. Reduce the amount of fund balance in the general fund to policy suggested levels and use excess funds to benefit taxpayers. Such uses could include, but are not limited to:
  - Funding one-time expenditures
  - Funding needed reserves
  - Pay off debt
  - Reducing real property taxes

# Appendix A: Response From Town Officials

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## TOWN OF STANFORD

Office of the Supervisor

ROUTE 82

STANFORDVILLE, NEW YORK 12581

Response to OSC Town of Stanford Financial Management Report of Examination September 15, 2021

As stated on page 4 of the OSC report, I took office on January 1, 2020 along with two newly elected members, and two members from the previous board.

According to the Town Board Minutes of 8.8.19 Councilman D'Agostino read this statement written by an outside auditor *"the report [AUD] is taking longer than expected due to the disaster that the financial records were in. There were numerous transactions posted in the wrong accounts, bank reconciliations were incomplete with no adjustments made to the accounts, payroll transfers were not done properly as "lump" transfers were made into the new payroll account with no accounting for how much of the transfers belong to each fund. Furthermore, payroll disbursements were still being posted to the fund checking account even though a payroll account was being used.....etc.* However, even with an outside consultant and our own municipal bookkeeper, **it took over 15 months [well into 2021] to receive accurate reports on the true standing of the town finances. This is a critical point.** I put in a FOIA request to the previous Supervisor Norton on multiple occasions to ask for the Tax Schedule Sheet for the 2020 Budget and was refused and told that the information was not held by his office

**CRAFTING THE 2020 BUDGET - It is imperative that the report make it clear that even as the Town Board was crafting their first budget, the vital information on the accuracy of our financial records and the status to Reserve Funds was not available.** The current Town Board did not want to over appropriate fund balance until we had a clear understand of what the Unallocated Fund Balance was. It would have been ill-advised to use the altered 2020 budget as a benchmark, as it had decreased the town tax levy by 59%. As a result of that, the town's General Fund received \$0 in real property, and only \$418,799.49 to the Highway Fund, which was budgeted to receive \$966,331. **The Highway Fund did run out of funds** in 2020 due to the actions of the prior budget. We made an interfund transfer of \$100,000 to supplement this fund. We also discovered a bookkeeping error made by the outgoing administration where CHIP funds had been deposited into the General Fund, and once we discovered this error, we were able to transfer an additional \$150,000 into the DA Fund.

Our current Town Board had discussions about Fund Balance, and we were not ignorant of its importance. At our meeting on 5/28/20 the minutes record "lengthy discussions" about corrective financial actions and the fund balance as do the minutes of 6/11/20 and 7/9/20.

When putting together the 2020 budget, we used actuals from Open Book going back at least five years to try to ascertain what appropriations were reasonable. We also used historical revenues to set achievable goals. And, as stated above, we tried to keep the use of fund balance down to a minimum because there was no clear understanding of what it actually was. **OSC publications advise excessive use of fund balance to balance a municipal budget is unadvisable and importantly, unsustainable.**

We used the 2019 tax levy as a benchmark, hoping to begin to stabilize our budget. It soon became apparent that the previous administrations had over appropriated expenses and underestimated revenues, thereby falsely claiming to reduce taxes every year while they were actually stockpiling taxpayer dollars in over 20 accounts.

Because the records were in such bad shape, I have implemented the following monthly financial reports : bank reconciliations, cash balances, forecasts which eventually became written and not oral, as well as twice monthly payroll

verification reports. Department Heads are supplied with monthly Expenditure updates, and I prepare Budget Modifications monthly when budget lines are not balanced.

It is noted in **Report Highlights** that we exceeded our fund balance policy limit by 63%, We adopted that policy in good faith, early on in our first year. It is aspirational. Given the fact that it took 15 months to get our financial records balanced and in order [including a large correction of due to and due froms], it was again, impossible for us to know what constituted the fund balance. We are now using a 5- year planning tool as well as bolstering necessary reserve funds in order to meet our goal, hopefully with the 2022 budget.

See  
Note 1  
Page 9

We have already addressed the corrective actions suggested in the report to lower the fund balance:

- 1 – in the 2022 budget we are funding a one-time expenditure - A Zoning Commission to be appointed after the approval of the Comprehensive Plan which we estimate to be a \$60,000 consultant fee.
- 2 – We passed a Resolution on September 14<sup>th</sup> that will add funds to two very critical reserves: the Highway Vehicle Reserve Fund, and the Building Reserve Fund. The Highway fleet is operating with equipment dating back to the '70s. We are planning for systematic replacement of this fleet. We will make much needed repairs and ultimately save money with efficient heating and cooling systems. This year we took down an old highway garage which had been hazardous and on the verge of potential collapse since 2018. For example, I discovered 6 months into my administration that the Town Generator had not been serviced in two years. We serviced it and were able to turn Town Hall into a cooling station last summer.
- 3 – We will be paying off our BAN this current fiscal year, which was taken out to buy a vital piece of Highway equipment.
4. - We will be reducing real property taxes by at least 6.5% in the 2022 budget. The final number will be known only after our budget workshops are complete. We will do this based on accurate numbers, and responsibly.

In addition, we have passed a local law which calls for Town Budgets to be passed before election day.

Finally, I would like to address a mistake I made in informing the auditors about which courses our Board Members had taken in financial management. Because we were not taking these seminars/webinars for credit, we did not obtain certification documentation.

See  
Note 2  
Page 9

Wendy Burton – attended two 2 ½ day seminars hosted by the OSC. Some of the classes I attended were: *Financial Toolkit for Local Officials, Understanding Financial Condition, Just Elected – What to do Now, Establishing and Accounting for Reserves and Accessing Financial Condition*. This list is not complete. I have taken instruction from a Municipal Bookkeeper of 30 years and a former OSC auditor.

Margaret Fallon [new Board Member] took classes with the OSC on *Fund Balance Policy [7/2020]* and *Just Elected: What to do Now*.

Deputy Supervisor Frank Pepe [new board member] took seminars/webinars too numerous to mention, but I will highlight some: *Town Government 101, Fiscal Accountability for Town Boards, Cash Management, Fund Balance Presentation & "Best Practice: Guidelines for the General Fund, Reserve /funs: Local Government Management Guide, Local Sales Taxes, Multiyear Financial Planning, and Developing an Effective Fund Balance Policy*.

Respectfully submitted,

Wendy Burton  
Supervisor, Town of Stanford

9.15.21

## Appendix B: OSC Comments on the Town's Response

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### Note 1

The report was amended to reflect that officials exceeded the Town's fund balance policy limit by \$645,366.

### Note 2

After issuing the draft report, the Supervisor told us that the Board members had taken training. However, they were unable to provide us with supporting documentation.

## Appendix C: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials, reviewed Board minutes, resolutions, policies, and multiyear financial plans to gain an understanding of the budget process and financial management policies and procedures.
- We reviewed the 2020 budget to determine whether it was structurally balanced and contained the required information.
- We reviewed the Board minutes and videos to determine whether there were discussions on the amount of the tax levy decrease for the 2020 budget.
- We reviewed the 2016 through 2021 adopted budgets and analyzed budgeted to actual revenues and expenditures. We also compared the fund balance appropriations to the operating results and town-wide real property tax levies.
- We analyzed the fund balance for the general fund for 2016 through 2020 and calculated percentage of unassigned fund balance in accordance with the Town's fund balance policy suggested limits.
- We analyzed the town wide real property tax levy for years 2017 through 2021.

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.

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.

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 provided 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 the CAP available for public review in the Town Clerk's office.

## Appendix D: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/local-government/fiscal-monitoring](http://www.osc.state.ny.us/local-government/fiscal-monitoring)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/local-government/resources/planning-resources](http://www.osc.state.ny.us/local-government/resources/planning-resources)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf](http://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/local-government/required-reporting](http://www.osc.state.ny.us/local-government/required-reporting)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/local-government/academy](http://www.osc.state.ny.us/local-government/academy)

## Contact

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