

Town of Hempstead

Budgeting

FEBRUARY 2022



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

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Report Highlights

Town of Hempstead

Audit Objective

Determine if the Town of Hempstead (Town) Board (Board) adopted realistic budgets and effectively monitored budgetary performance.

Key Findings

The Board did not adopt realistic and appropriate budgets and the Town's preliminary budgets for 2017-2020 fiscal years did not include the fund balance estimates required by Town Law. Town officials also did not effectively monitor the annual budgets.

- Town officials levied \$37.6 million more in taxes than was necessary to fund budgeted expenditures, over the four-year audit period for the six major funds reviewed.
- Town officials failed to monitor the annual budget timely, resulting in the Board approving significant budget adjustments totaling \$69.1 million between nine and eleven months after the year end.

Key Recommendations

- Present budget estimates in a realistic and transparent manner, and show fund balance estimates for each fund, with the required breakdown.
- Properly budget for salaries and wages.
- Monitor the budget throughout the year and make necessary budget amendments prior to a budget line becoming over expended.

Town officials disagreed with certain findings and recommendations in our report. Appendix B includes our comments on the issues raised in the Town's response.

Background

The Town is located in Nassau County. The Town provides services to its residents, including street maintenance and improvements, parks and recreation, solid waste disposal and general government support.

The Town is governed by an elected seven-member Board, which is composed of six Council members and the Town Supervisor. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor serves as the chief executive officer and is responsible for the implementation of the Town's budget. The Town Comptroller is responsible for maintaining the accounting records and monitoring the Town's annual budget.

Quick Facts

2019 Population	766,980
2019 Salaries	\$167.8 million
2019 Total Expenditures	\$600.2 million

Audit Period

January 1, 2017 – December 31, 2019. We extended our audit period to review the 2020 adopted budgets.

Budgeting

How Should Officials Develop a Realistic and Transparent Budget?

A board is responsible for adopting a realistic and transparent budget, which is accomplished by ensuring budgetary estimates are clear and realistic and the total financing sources from estimated revenues, appropriated fund balance and appropriated reserves equal the town's estimated expenditures for the fiscal year. Fund balance is the difference between revenues and expenditures accumulated over time. Accurate budget estimates of town expenditures, town revenues, as well as how much fund balance to appropriate, helps ensure that the town's annual tax levy is sufficient to cover the town's expenses, while at the same time, should not be greater than necessary. Use of historical or known financial trends can help the board adopt a reasonable and realistic budget.

Because budgeting is not an exact science, most local governments are authorized to include an amount in their budget for unforeseen circumstances, referred to as a contingency account, which is subject to limitations established by various laws. Reserves may also be funded through the budget in anticipation of future needs. Making clear provisions in the proposed budget for these purposes, along with written policies to govern budgeting practices, informs officials and the taxpayers of the board's plans and increases transparency.

Town law requires the preliminary budget show, by fund, proposed appropriations and estimated revenues, a fund balance estimate, the amount of taxes to be levied and salaries of elected officers. The fund balance estimate is required to provide a breakdown of amounts encumbered, amounts set aside for reserves, amounts appropriated to finance the ensuing year's budget and the remaining estimated unappropriated, unreserved fund balance for each fund. Without this information, taxpayers are not made aware of the level of fund balance projected to be retained, the amounts to be appropriated for the ensuing year's budget and changes in fund balances from one year to the next. The remaining estimated unappropriated unreserved fund balance that is carried from one year to the next for each fund shall not exceed a reasonable amount, consistent with prudent budgeting practices.

Two Budget Line Items Were Not Transparent and One Was Also Not Appropriate

We reviewed the Town's 2017-2020 budgets for six major funds – the town-wide general, part-town general, highway, parks and recreation, garbage and refuse, and water funds. We found that Town officials, in some instances, included a line item entitled "Deficit Reduction" in each of the funds in various years. The amount of the "Deficit Reduction" was inappropriately subtracted from that fund's estimated revenues. By reducing the amount of estimated revenues, the Town's tax levy was increased for that fiscal year creating a budgeted surplus. This

By reducing the amount of estimated revenues, the Town's tax levy was increased for that fiscal year creating a budgeted surplus.

resulted in raising \$43.8 million in taxes more than necessary to fund budgeted expenditures over a four-year period.

In addition, Town officials, in other instances, included a line item entitled “Balances” in some funds in various years.¹ Unlike the “Deficit Reduction” line item, the “Balances” line item was used to increase estimated revenues by appropriating fund balance to finance operations and, hence, reduce the tax levy, creating a planned deficit totaling about \$6.2 million. While appropriation of available fund balance as a financing source is a common and accepted practice, the Town’s practice of calling it “Balances” is not the correct way to present the amount of appropriated fund balance in the budget.

While the appropriation of fund balance is intended to reduce taxes and utilize fund balance to finance expenditures, the Town’s practice of increasing taxes as a result of using the “Deficit Reduction” line item significantly offset the appropriated fund balance benefit to taxpayers. As shown in Figure 1 below, the effect of the increases due to the “Deficit Reduction” line item, when offset by decreases due to the “Balances” line resulted in net increases to taxes totaling \$37.6 million from 2017-2020 for the six major funds we reviewed.

Figure 1: Amounts Included in Annual Budgets for “Deficit Reduction” (Increased Tax Levy) and “Balances” (Reduced Tax Levy) 2017-2020

Fund	2017	2018	2019	2020	Total
Town-Wide General	\$3,274,421	\$6,748,531	(\$1,537,465)	(\$1,038,918)	\$7,446,569
Part-Town General	(1,380,716)	510,499	(1,149,133)	436,062	(1,583,288)
Highway	(91,134)	1,057,452	955,727	398,588	2,320,633
Parks & Recreation	1,065,343	6,147,792	7,494,271	3,032,829	17,740,235
Garbage & Refuse	(32,101)	5,261,956	820,412	(840,779)	5,209,488
Water	(105,547)	2,633,033	1,261,575	2,710,626	6,499,687
Total	\$2,730,266	\$22,359,263	\$7,845,387	\$4,698,408	\$37,633,324
“Deficit Reduction”/ Total Tax Increases	\$4,339,764	\$22,359,263	\$10,531,985	\$6,578,105	\$43,809,117
“Balances”/ Total Tax Decreases	(1,609,498)	-	(2,686,598)	(1,879,697)	(6,175,793)
Net Increase to Tax Levy	\$2,730,266	\$22,359,263	\$7,845,387	\$4,698,408	\$37,633,324

While none of these fund balances were in a deficit during our audit period, the Town Comptroller’s office said the use of a “Deficit Reduction” line item was necessary to maintain a certain level of fund balance in accordance with the

¹ The budget for each fund included either a “Balances” or “Deficit Reduction” each year. No fund included both items in the same year.

Town's fund balance policy. The Town's fund balance policy states the Town shall designate a portion of unassigned fund balance, equal to one-twelfth of annual operating expenses inclusive of debt service and capital transfers, for emergency purposes. It also states that in addition to the one-twelfth, the Town will maintain an assigned/unassigned fund balance equal to one-sixth of annual operating expenses as presented in the most recent audited financial statements. The policy also states that if the fund balances required to be maintained fall below required levels, the Town shall replenish these balances through the budgetary process over a period of five years.

While the Town's fund balance policy provides Town officials with guidance on the level of fund balance the Board wishes to maintain, using the "deficit reduction" line item for budgeting purposes is not an appropriate or transparent method to provide for unexpected or emergency purposes and future needs. Instead, budgeting for a contingency appropriation and/or funding reserves through the budget, when authorized by law, would provide funding for unexpected or future needs in an authorized and more transparent manner. The general fund's adopted budget contained a \$300,000 contingency account each year for 2017-2019 fiscal years. This contingency was not used in any of the three years.

Further, the use of the terminology "Deficit Reduction" for a fund not actually in a deficit, does not clearly communicate to the taxpayers the Town's intention to levy additional taxes to increase an already positive fund balance. Moreover, without a fund balance projection in the preliminary budget (see related finding), taxpayers may not recognize when the Board is budgeting to appropriate fund balance when the term "Balances" is used.

The Preliminary Budget Did Not Include a Fund Balance Estimate

The Town's preliminary budgets for 2017-2020 fiscal years did not include fund balance estimates with a breakdown as required by Town Law Section 107. The preliminary budget is required to include this information so that the budget is useful to officials in preparing and approving the budget, and transparent to the taxpayers. Town officials stated that they were not aware of the requirement that the Town's preliminary budget contain a fund balance estimate.

Due to a lack of required information provided in the preliminary budget, officials and taxpayers may not have had adequate information to properly assess budget estimates. Further, officials and taxpayers did not have complete and sufficient financial information to effectively assess the reasonableness of fund balances and its effect on the overall budgets.

The Town's preliminary budgets for 2017-2020 fiscal years did not include fund balance estimates with a breakdown as required by Town Law.

The Budget Did Not Include Realistic Salary Appropriations

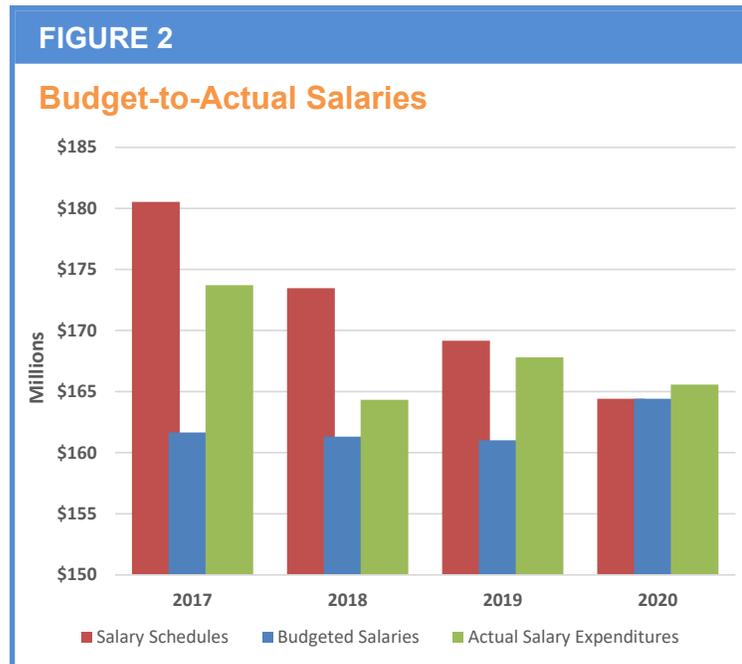
The Board did not develop realistic estimates for salaries and wages. We reviewed budgeted salaries for our audit period for the six major funds. Between 2017 and 2020, the Board budgeted expenditures for salaries totaled \$161.7 million, \$161.3 million, \$161 million and \$164.4 million, respectively. Town officials informed us that preliminary salary estimates were developed by the Town Comptroller's office with expected step and grade level increases in accordance with the Town's salary schedules. Department heads were then consulted to determine if there were any adjustments to be made.

The Town's budget included salary schedules with estimates by position. However, the amount appropriated for salaries in the budget did not match the salary schedules for 2017-2019. Instead, the amount appropriated was \$39 million (\$18.9 million, \$12.2 million and \$8.2 million in 2017-2019, respectively) less than the salaries listed in the salary schedules. The difference between the budgeted salaries and the salary schedules was presented as an amount entitled "Less Savings" at the bottom of the salary schedules in the Town's budgets, with no indication of which salaries would be reduced or the reason why. The Town Comptroller's office informed us that the "Less Savings" amounts were an adjustment developed in anticipation of salary reductions resulting from attrition. We were told that the calculation for "Less Savings" considered salary reductions from a percentage of retirement eligible employees. This amount was reduced by an estimate of separation payments for those employees. However, the Town did not budget separation payments separately from salary lines, reducing the ability to accurately estimate these costs. The 2020 budget did not contain "Less Savings" adjustments in the salary schedules and the schedules agreed with the budgeted salary figures in the budget.

We reviewed the amount of actual expenditures for salaries during our audit period to determine the impact of the "Less Savings" adjustment in budgeting for salaries. We determined the Town underbudgeted salary by a total of \$21.9 million from 2017 - 2019 for the major funds reviewed. For example, the salary schedules presented in the 2019 preliminary budget for the Parks and Recreation department detailed a total of \$39.4 million in salaries. A \$1.4 million "Less Savings" reduction was shown at the bottom of the schedule and a net salary of \$38 million was presented in the Parks and Recreation salary budget line. However, the department's actual salary expenditures at the end of 2019 totaled \$39.5 million, a negative variance of \$1.5 million.

Had salaries been budgeted without the "Less Savings" reduction, the Town would have experienced a \$17.3 million surplus in salary lines, instead of a \$21.9 million shortfall over the three-year period. Therefore, salary estimates were not budgeted accurately with or without the "Less Savings" calculation as illustrated in Figure 2.

Town officials told us that the variances in amounts budgeted for salaries and actual salary expenditures resulted from unexpected retirement costs when more employees than expected took advantage of a retirement incentive offered by the Town in 2017. This resulted in expenditures for separation payments that had not been budgeted for.



Expenditures for salaries are a significant cost to the Town each year and accurately budgeting for salaries and other related costs (e.g., overtime and separation pay) is necessary to avoid material over-expenditures of estimates. Because separation payments were not budgeted separately from salaries, officials did not appropriately budget and account for these costs. As a result, actual costs exceeded budgeted amounts.

How Should Town Officials Effectively Monitor the Budget?

Town officials are responsible for monitoring the town's estimated revenues to ensure budgetary amendments are made in the event of revenue shortfalls and appropriations to ensure that they are not over expended. The board should be provided budget-to-actual reports on a regular basis to monitor the budgets in a timely fashion to prevent unanticipated variances at year end. Effective budgetary controls limit expenditures to the specific purposes and amounts authorized by a board in the annual budget. A board is responsible for approving budget modifications and transfers between budget appropriations in the budget. At the recommendation of the town comptroller, the board may transfer appropriations from one account to another, prior to an appropriation becoming over expended.

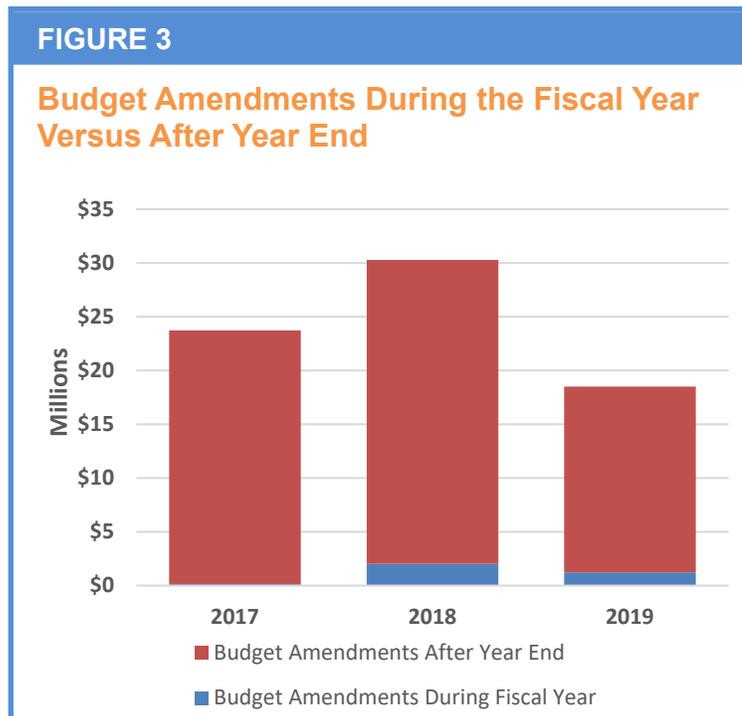
Town Officials Did Not Effectively Monitor the Budget

Town officials did not effectively monitor expenditures to ensure appropriations were not over expended. During our audit period, Town officials over expended 128 of 774 appropriation accounts (17 percent) in 2017, 130 budgetary accounts (17 percent) in 2018 and 186 accounts (24 percent) in 2019. In addition, the Board was not presented with complete budget-to-actual reports. Board members were provided with monthly reports for their own departmental budget, referred to as their “Councilmatic District” rather than Town-wide budget to actual reports. Therefore, they did not have sufficient information to monitor the budget.

We reviewed budget transfers prepared by the Town Comptroller’s office and approved by the Board during the 2017-2019 fiscal years for the major funds. The Board made relatively few budget modifications during each fiscal year. The Board approved two budget transfers totaling \$145,000 in 2017, 17 transfers totaling \$2 million in 2018 and 17 transfers totaling \$1.4 million in 2019. Instead of making budget modifications before an appropriation was over expended, most budget transfers occurred well after the end of the fiscal year.

Significant budget modifications totaling \$69.1 million over the three-year period were made between nine and eleven months after the conclusion of each fiscal year. The Board authorized budget transfers totaling \$23.6 million to amend the 2017 budget in September 2018, nine months after year end. Amendments to the 2018 and 2019 budgets totaling \$28.3 million and \$17.3 million, respectively, were made eleven months after year end. Budgetary transfers made after the completion of a fiscal year have no purpose given the appropriations lapse upon the end of the fiscal year. In order for budgetary transfers to serve a meaningful purpose, they should be approved prior to an appropriation being over expended. Figure 3 shows budget amendments made during and after the end of the fiscal year.

In order for budgetary transfers to serve a meaningful purpose, they should be approved prior to an appropriation being over expended.



Further, the resolutions authorizing these adjustments did not provide any reason why the various appropriations were over expended, but instead stated that budget adjustments were required “to accurately reflect actual operating results.” However, making the adjustments would not have any meaningful impact on the actual operating results which are determined from the actual revenues and expenditures, not appropriations.

Finally, instead of making budget modifications by transferring available appropriations from one budget line to another, the Board authorized the appropriation of fund balance for the majority of the adjustments completed for the 2017-2019 fiscal years. Over the three years, \$60.9 million of year-end budget modifications were funded with appropriated fund balance (82 percent, 99 percent and 80 percent of adjustments, respectively). This did not result in fund balance deficits because officials routinely budget for surpluses to maintain fund balance.

Without monitoring the budget, providing the Board with budget-to-actual reports, and performing timely budget modifications, the ability for Town officials to monitor and control expenditures is diminished. Additionally, the practice of the Board retroactively adjusting over expended budget lines up to eleven months after year end masks the true budget-to-actual performance, hindering accurate budgeting in the subsequent year’s budget.

What Do We Recommend?

The Board should:

1. Present budgets that include estimates for revenues and appropriations, and appropriated fund balance in a realistic and transparent manner and fund balance estimates for each fund, with the required breakdown.
2. Consider budgeting contingency appropriations and funding reserves when funding is needed for unexpected and future needs.
3. Properly budget for salaries and wages, and separation payments.
4. Monitor budgeted and actual results on a timely basis and require budget amendments to be presented for approval before appropriations are over expended.

The Comptroller should:

5. Monitor the budget throughout the year and present the Board with necessary budget amendments for approval with explanations prior to a budget line becoming over expended.
6. Provide the Board with complete budget-to-actual reports.

Appendix A: Response From Town Officials

Council Members
DOROTHY L. GOOSBY
ANTHONY P. D'ESPOSITO
DENNIS DUNNE, SR.
THOMAS E. MUSCARELLA
CHRISTOPHER CARINI

KATE MURRAY
Town Clerk

JEANINE C. DRISCOLL
Receiver of Taxes

JOHN A. MASTROMARINO, CPA
Town Comptroller

DOMINICK A. LONGOBARDI
Deputy Town Comptroller

Town of Hempstead Office
of the Comptroller Purchasing
Division
350 FRONT STREET
HEMPSTEAD, N.Y. 11550-4037
(516) 489-5000



DONALD X. CLAVIN, JR.
Supervisor

January 31, 2022

Ira McCracken
Chief Examiner at NYS Office of the State Comptroller

Town of Hempstead Response to NYS Budget Examination January 27, 2022

Key Findings:

The statement on page 3 under "Key Findings", "Town officials levied \$37.6 million more in taxes than was necessary to fund budgeted expenditures, over the four-year audit period and for the six major funds reviewed" is inaccurate. Furthermore, the chart as presented on page 5 Figure 1, misrepresents to the reader that the Town over taxed the residents by \$ 37,633,324.

See
Note 1
Page 15

This chart merely reflects either the addition or reduction of fund balance in summary form for selected funds for each of the Annual Budgets for the period under examination 2017-2020. Each of the sixty (60) taxing entities, however, has unique and different funding requirements. The Town prepares budgets and levies taxes for:

- 17 Fire Protection Districts
- 7 Library Funding Districts
- 1 Street Lighting District
- 8 Park Districts
- 14 Parking Districts
- 3 Refuse & Garbage Collection Districts
- 1 Refuse Disposal District
- 6 Water Districts
- General Fund, Part-Town Fund and the Part-Town Highway Fund

It is disingenuous in any analysis to pick and choose individual data that supports the assertion that there was a tax increase during the period under audit. We do not understand why your analysis excluded various Town funds and special districts. This would have correctly demonstrated the history of taxes levied during your audit period. To correctly summarize taxes actually levied taken as a whole during your audit period it demonstrates a tax reduction of \$14,484,169.22 or 5.5%.

See
Note 2
Page 15

The chart which is labeled as appendix 2 clearly demonstrates taxes levied as a whole for the Town of Hempstead, demonstrating the decrease stated above.

The increases or decreases shown in the chart provided in your report for increases or decreases in fund balance (not an increase or decrease in taxes levied) was necessitated to provide stability in individual funds and to provide compliance with the mandated Town Board policy for reserve requirements.

The maintenance of adequate fund balance as dictated by the Town Board is a corner stone of fiscal stability, as noted in various credit rating agency reports indicating the Town's conservative budgeting practices. As specified by all credit rating agencies this has a positive impact on the interest expense that the Town pays on its debt. The lack of attention to maintaining adequate fund balance would have an adverse effect on the Town's bond rating therefore unnecessarily increasing taxes to support such a preventable expense.

Finding: Two Budget Lines Were Not Transparent and One Was also Not Appropriate

The exception with the nomenclature of "Deficit Reduction" is not relevant but, the concept is. The Town of Hempstead on August 4, 2009 adopted a Fund Balance Policy via Town Board Resolution 948-2009 (See Document 1). The policy stated that 1/12 of the annual operating expenses as presented in the most recent audited financial statements of the Town of Hempstead shall be designated for Emergency purposes and 1/4 of the annual operating expenses as presented in the most recent audited financial statements of the Town of Hempstead shall be maintained. Combining the two designations, the Town Board Adopted Fund Balance Policy Requirement is 4/12's or 1/3 of the annual operating expenses as presented in the most recent audited financial statements. The Policy also states that when the designated balance falls below the required thresholds, "the town shall replenish these balances through the budgetary process over a period of three to five years." (See Document 1)

See
Note 3
Page 15

As of 1/1/2017, Town Operating Funds had a Fund Balance in total of approximately 19%. Because of this deficiency, which was approximately \$ 70.0 m, the town following its Board Adopted Fund Balance Policy budgeted appropriately to increase fund balance to bring itself back in compliance within the three-five year time frame as stated in TBR 948-2009 Item number 4. (See Document 1)

We disagree with the State Comptroller's issue with the mechanics of Deficit Reduction as a concept being used to add reserves in order to comply with the Town Board Adopted Fund Balance Policy.

Page 6 of the report states " Instead, Budgeting for a contingency appropriation and/or funding reserves through the budget, when authorized by law, would provide funding for unexpected or future needs in an authorized and more transparent manner." Town Law Section 107(2) states that the General Fund may contain an appropriation for contingencies of up to 10% of Appropriations excluding debt service, judgments; special district purposes certain highway purposes and part-town purposes. Such contingency appropriation established in the General Fund would not be able to provide budgetary assistance to other funds as needed due to legal restrictions. The uses of Reserve Funds as authorized by Article 2 of the General Municipal Law (GML) do not pertain to all Town Funds. For example, Capital Reserve Funds for the Town may only be created for Town Improvement Water Districts per Section 6-c. Once the Town is in compliance with the Board Adopted Fund Balance Policy, we will research creating an Employee Benefit Accrued Liability Reserve Fund as established per GML 6-p.

Finding: The Preliminary Budget Did Not Include a Fund Balance Estimate

The Town will consult with its budget system information and technology provider to modify its existing budget software to comply with Town Law Section 107.

Finding: The Budget Did Not Include Realistic Salary Appropriations

The Town disagrees with this statement. When preparing the salary proposal, we take into account employees who are eligible for retirement in the upcoming budget period. We estimate what percentage we think will retire based on past history and estimate a percentage of their salary for lump sum payments of accrued leave and incentive payments when applicable. As you say on page 4, "Budgeting is not an exact science." The Budget is a spending plan that makes assumptions for the ensuing budget period. For the 2017 incentive, the Town did not meet its goal of \$ 19.0 million in avoided salaries by a shortfall of \$ 7.0 million. Greater than anticipated employee separation payments lead to a budget shortfall of \$ 12.1 million for 2017. However, the Town did bond the incentive costs and the lump sum payments of \$8,598,582 reducing the impact on the 2017 operating budget salary deficit.

If the Town did not provide budgetary relief by estimating potential retirements and reflecting so in the proposed budget, real property taxes would have been inappropriately increased.

See
Note 4
Page 15

Beginning in Budget Year 2019, the Town segregated the salary accounts into multiple categories for greater transparency. The Town will create a new account for separation payments to be included in future budgets.

Finding: Town Officials Did Not Effectively Monitor the Budget

We disagree with this finding. The Comptroller is in constant communication with Management concerning the status of the budget. Many of the budget overrides are for non-discretionary items at yearend such as: utilities, workers' compensation payments, tort expenses, vehicle maintenance, fuel, etc. that can't wait for a resolution to pass as these expenses must be paid due to required compliance deadlines. Adjustments and accruals as required by the auditors are not made available in some cases until late in the subsequent budget year. For example, the Nassau County Community College Chargeback expense is not available until May or June for the 4th quarter preceding budget year. It also becomes a ministerial nightmare after yearend to keep amending the prior year budget without the auditors completing their audit having final expenditures. The Comptroller's Office for Budget Year 2021 has increased the number of budget transfer Town Board Resolutions occurring during the year. However, the bulk of these transfers will continue to occur after yearend due to the timing of our audit.

See Note 5 Page 15

Respectfully,

John A. Mastromarino, CPA
Town Comptroller
Designated Representative for the Town of Hempstead

APPENDIX SECTION

BOARD ADOPTED AMENDED FUND BALANCE POLICY

CASE NO 28103
25985

RESOLUTION NO. 501-2020

DOCUMENT 1

Adopted: March 31, 2020

Councilman Blakeman offered the following resolution and moved its adoption

RESOLUTION AMENDING THE TOWN OF HEMPSTEAD FUND BALANCE POLICY

WHEREAS, the Town of Hempstead has taken proactive steps to maintain the town's credit rating, meet seasonal cash flow shortfalls, maintain services during periods of economic decline and provide for emergencies; and

WHEREAS, the Town of Hempstead wishes to maintain relative tax stability from budget year to budget year; and

WHEREAS, the State Comptroller and Government Finance Officers Association (GFOA) recommend that governmental agencies adopt fund balance policies; and

WHEREAS, the town's Comptroller and Financial Advisor have advised the Town Board that the fund balance policy described below is consistent with the town's fiscal goals and with the recommendations of the State Comptroller and GFOA;

NOW, THEREFORE, BE IT

RESOLVED, that the Town of Hempstead Fund Balance Policy as amended which follows be and hereby is approved and shall take effect immediately:

TOWN OF HEMPSTEAD FUND BALANCE POLICY AS AMENDED

1. This Policy shall apply to the Assigned and Unassigned fund balance accounts of all Town Funds in totality exclusive of the Capital Projects Fund, Debt Service Fund, Special Grant Fund and Permanent Fund.
2. The town shall designate a portion of Unassigned Fund Balance in the case of the General Fund, Assigned Fund Balance for all other funds for emergency purposes. Such designation will be equal to one-twelfth of annual operating expenses inclusive of debt service and capital transfers as presented in the most recent audited financial statements of the Town of Hempstead.
3. The town may appropriate, in whole or in part, funds designated for emergencies by resolution of the Town Board.
4. In addition to the one-twelfth of annual expenses emergency designation provided for in (2), above, the town will maintain an Assigned/Unassigned fund balance equal to one-sixth of annual operating expenses inclusive of debt service and capital transfers as presented in the most recent audited financial statements of the Town of Hempstead.
5. In the event that the Assigned/Unassigned fund balances required to be designated in (2) and maintained in (4), above, fall below required levels, the town shall replenish these balances through the budgetary process over a period of five years.
6. If the amount of Assigned/Unassigned fund balance required to be maintained by (5), above, exceeds an additional one-fourth of annual operating expenditures inclusive of debt service and capital transfers as presented in the most recent audited financial statements of the Town of Hempstead, the excess shall be appropriated for operating expenditures in future years.

The foregoing resolution was adopted upon roll call as follows:

AYES: SEVEN (7)

NOES: NONE (0)

"TAX LEVY"
TOWN OF HEMPSTEAD

FUND	2020 BUDGET	2019 BUDGET	2018 BUDGET	2017 BUDGET
GENERAL FUND	\$ 27,653,415.71	\$ 28,755,813.22	\$ 34,056,747.61	\$ 32,394,388.69
PART TOWN FUND	3,531,583.45	3,577,930.60	3,518,383.52	3,519,290.65
PART TOWN HIGHWAY FUND	58,598,300.08	61,814,740.59	62,805,869.10	64,071,148.89
FIRE PROTECTION DISTRICTS	5,260,580.06	5,261,852.49	4,948,314.27	4,948,329.62
LIBRARY FUNDING DISTRICTS	1,370,014.83	1,370,021.68	1,281,032.03	1,281,054.98
STREET LIGHTING DISTRICT	9,816,528.64	9,816,782.55	9,818,340.77	9,152,323.96
PARK DISTRICTS	51,716,042.43	54,911,218.70	56,518,480.36	51,171,112.05
PARKING DISTRICTS	3,105,857.02	3,639,462.00	3,830,437.59	3,982,988.21
REFUSE DISPOSAL DISTRICT	37,529,685.71	39,490,729.19	40,264,734.11	37,380,385.82
COLLECTION DISTRICTS	48,917,893.74	48,918,159.17	50,100,083.17	53,514,679.30
WATER DISTRICTS	5,627,284.05	5,627,373.23	6,059,517.77	6,559,642.77
TOTAL TOWN LEVY	\$ 253,127,185.72	\$ 263,184,083.42	\$ 273,201,940.30	\$ 267,975,354.94
CHANGE IN LEVY BY YEAR	\$ (10,056,897.70)	\$ (10,017,856.88)	\$ 5,226,585.36	
CHANGE IN LEVY FROM 2017 TO 2020	\$ (14,848,169.22)			-5.5%

14848169.22

COMMISSIONER OPERATED

LIBRARY	8,093,859.55	7,995,459.95	8,010,243.93	7,776,006.39
SANITATION	74,339,822.67	73,281,210.71	71,510,176.65	69,817,116.73
WATER	4,683,304.86	4,250,272.02	3,678,438.11	3,570,577.25
GREATER ATLANTIC BEACH WATER RECLAMATION DISTRICT	1,844,486.54	1,808,403.00	1,810,000.00	1,779,050.05
TOTAL COMM OPP LEVY	88,961,473.62	87,335,345.68	85,008,858.69	82,942,750.42
GRAND TOTAL TAXES LEVIED	\$ 342,088,659.34	\$ 350,519,429.10	\$ 358,210,798.99	\$ 350,918,105.36
GENERAL FUND	\$ 27,653,415.71	\$ 28,755,813.22	\$ 34,056,747.61	\$ 32,394,388.69
PART TOWN FUND	3,531,583.45	3,577,930.60	3,518,383.52	3,519,290.65
PART TOWN HIGHWAY FUND	58,598,300.08	61,814,740.59	62,805,869.10	64,071,148.89
TOTAL SPECIAL DISTRICTS	163,343,886.48	169,035,599.01	172,820,940.07	167,990,526.71
TOTAL COMMISSIONER OPERATED	88,961,473.62	87,335,345.68	85,008,858.69	82,942,750.42
TOTAL TAXES LEVIED	\$ 342,088,659.34	\$ 350,519,429.10	\$ 358,210,798.99	\$ 350,918,105.36

Appendix B: OSC Comments on the Town's Response

Note 1

The Town budgeted a net surplus of \$37.6 million over 4 years, in the six major funds reviewed. The surplus was financed by levying \$37.6 more in taxes than what was needed to finance annual expenditures and was caused by adjustments in the tax levy calculation. The numbers in our chart (Figure 1) are the “Deficit Reduction” and “Balances” adjustments in the tax levy calculations in the Town’s adopted budgets.

Note 2

For materiality purposes, we selected the Town’s major funds for review (see appendix C – Audit Methodology and Standards). Our report details budgeting practices in the major funds and highlights the Town’s budgetary practices that led to raising taxes in excess of what was actually necessary to fund annual operations.

Note 3

The use of the term “deficit reduction” is misleading and does not clearly communicate to the taxpayers the Town’s intention to levy additional taxes to increase fund balance and it may imply to readers the Town is budgeting to reduce or eliminate an actual deficit, however that is not the case with the Town’s use of “deficit reduction” in developing its budgets.

Note 4

As a result of the “budgetary relief,” referred to as “Less Savings” in the budget, the Town under budgeted salaries by \$21.9 million from 2017-2019. The Town did not budget appropriately and sufficiently for a retirement incentive it had implemented. As a result, when these budget lines were overspent, the funds generally came from fund balance.

Note 5

Our report addresses the lack of reports to the Board regarding budgetary performance; the Board is responsible for approving budget amendments. A budget is a tool that is effective only when actively monitored and amended when necessary throughout the year. Routine expenditures such as utilities, vehicle maintenance, and fuel should generally not be made without an available appropriation and should not wait until nine or more months after year end to be adjusted.

Appendix C: Audit Methodology and Standards

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 responsible for budget development and financial oversight.
- We conducted a review of policies pertaining to budgeting, including the Town's Fund Balance Policy.
- We reviewed the Town's preliminary and adopted budgets for the 2017-2020 fiscal years to determine if the budgets were presented in accordance with Town Law.
- We compared budget estimates to actual results for the Town's major funds for the 2017-2019 fiscal years to determine if select budget estimates were reasonable and whether budgetary accounts were over expended at year end.
- We reviewed the major funds to determine if those funds reported a deficit during 2017-2020.
- We reviewed budget amendments approved by the Board, to determine whether budget variances were addressed in a timely fashion.

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.

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

Regional Office Directory

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

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

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

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

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

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

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

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

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