

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Town of Ellicott

Fiscal Stress

Report of Examination

Period Covered:

January 1, 2010 — July 20, 2013

2013M-269



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	4	
FISCAL STRESS	5	
Recommendations	8	
APPENDIX A	Response From Local Officials	9
APPENDIX B	Audit Methodology and Standards	11
APPENDIX C	How to Obtain Additional Copies of the Report	12
APPENDIX D	Local Regional Office Listing	13

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 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 Ellicott, entitled Fiscal Stress. 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 Ellicott (Town) is located in Chautauqua County, is approximately 31 square miles, and serves approximately 8,700 residents. The elected five-member Town Board (Board) is the legislative body responsible for managing Town operations, including establishing internal controls over financial operations, and for maintaining sound financial condition. The Town Supervisor (Supervisor) is a member of the Board and serves as the chief executive officer. The Supervisor also is the Town's chief fiscal officer and is responsible for receiving, disbursing, and maintaining custody of Town moneys, maintaining the Town's accounting records, and providing financial reports to the Board. Although the Board is primarily responsible for the effectiveness and proper functioning of internal controls, the Supervisor and department heads share this responsibility.

As of July 2013 the Town had 47 employees. The Town's budgeted appropriations for the 2013 fiscal year are approximately \$3.8 million, which are funded primarily with real property taxes, sales tax, and State aid. The Town provides services for its residents, including police, fire protection, highway maintenance, snow removal, water, sewer, street lighting, and general government support.

Fiscal stress is a judgment about the financial condition of an individual entity that must take into consideration the entity's unique circumstances, but can be defined generally as a local government's or school district's inability to generate enough revenues within a fiscal period to meet its expenditures (budget solvency). The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments (counties, cities, towns, and villages) and school districts based on financial and environmental indicators to determine if these entities are in or nearing fiscal stress. The Town has been classified as in moderate fiscal stress.

Objective

The objective of our audit was to review the Town's financial condition and address the following related question:

- Does the Board adopt realistic budgets that are structurally balanced and do Town officials adequately monitor the Town's financial operations to ensure fiscal stability?

Scope and Methodology

We analyzed the Town's financial condition for the period January 1, 2010, to July 20, 2013.

Comments of Local Officials and Corrective Action

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.

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 have taken or plan to take corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Fiscal Stress

Financial condition may be defined as a Town's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A Town in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a Town in fiscal stress usually struggles to balance its budget, suffers through disruptive service level declines, has limited resources to finance future needs, and has minimal cash available to pay current liabilities as they become due. Town officials have a responsibility to taxpayers to ensure that their tax burden is no greater than necessary. To fulfill this responsibility, it is essential that Town officials develop reasonable budgets, manage fund balance responsibly, and monitor and adjust the budget as each fiscal year progresses. Finally, Town officials should develop detailed multiyear plans to set long-term priorities and work toward goals, rather than making choices based only on the needs of the moment.

The Board did not adopt realistic budgets, did not adequately monitor and adjust the annual budgets, and did not adequately monitor the Town's financial operations to ensure fiscal stability. As a result, the Town's general town-wide fund's unexpended surplus funds¹ declined from \$169,198 as of January 1, 2010, to a deficit of \$28,226 as of December 31, 2012, while the highway part-town fund's unexpended surplus funds declined from \$63,773 to a deficit of \$29,228 for the same period. In addition, the general town-wide and highway part-town funds have had operating deficits during the last three fiscal years² because the Board over-appropriated fund balance and over-estimated revenues.

General Town-Wide Fund — In 2010, the Town experienced a significant operating deficit in the general town-wide fund caused by the Board appropriating \$150,000 of unexpended surplus funds

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, less any amounts appropriated for the ensuing year's budget (after Statement 54).

² The general town-wide fund had operating deficits in 2010 and 2011, and the highway part-town fund had operating deficits from 2010 to 2012.

and overestimating revenues by approximately \$50,000 in the 2010 budget. This left the Town with only \$14,431 of surplus funds available for the 2011 fiscal year. However, in the 2011 budget, the Board appropriated \$75,000 of unexpended surplus funds that the Town did not have, causing a \$60,569 deficit in the general town-wide fund at the end of 2010 (Table 1). From 2010 to 2012, the Board over-estimated revenues in total by approximately \$144,000.³ For example, the Board over-estimated Justice Court revenues by \$73,300 from 2010 to 2012.

Table 1: General Town-Wide Fund Results of Operations

	FY 2010	FY 2011	FY 2012
Beginning Total Fund Balance	\$224,349	\$41,124	\$24,489
Revenues	\$2,108,553	\$2,115,210	\$2,298,576 ^a
Expenditures	\$2,291,778 ^b	\$2,131,845	\$2,261,544
Operating Surplus/(Deficit)	(\$183,225)	(\$16,635)	\$37,032
Prior Period Adjustment	\$0	\$0	\$32
Subtotal	\$41,124	\$24,489	\$61,553
Less: Restricted Fund Balance ^c	\$26,693	\$20,291	\$89,779
Available Surplus Funds for Appropriation	\$14,431	\$4,198	(\$28,226)
Less: Appropriated Fund Balance for the Ensuing Year's Budget	\$75,000	\$0	\$0
Year-End Unexpended Surplus Funds	(\$60,569)	\$4,198	(\$28,226)
Adjustment for Taxpayer Equity ^d			\$8,570
Adjusted Year-End Unexpended Surplus Funds			(\$19,656)

^a Includes DWI revenues of \$69,448, which also is included in the restricted fund balance amount of \$89,779.

^b Originally this amount was recorded as \$2,318,471, which included \$26,693 in unexpended DWI moneys. However, in 2012, the Town made a prior period adjustment removing the \$26,693 from expenditures and including it in the restricted fund balance.

^c Restricted fund balance represents State STOP-DWI program moneys that must be restricted for program use only.

^d This adjustment includes an overspent capital project and a misallocation of retirement contributions.

Highway Part-Town Fund — In 2010, the Board adopted a budget for the highway part-town fund where appropriations⁴ exceeded estimated revenues by \$50,000, resulting in an operating deficit of \$5,026. In addition, the Board improperly included \$50,000 in estimated revenues in the 2010 budget.⁵ However, the Town's 2010 actual highway expenditures were lower than the Board had expected by approximately \$90,000, which offset this error. In the 2011 budget, the Board continued its faulty budgeting practices by appropriating \$125,000 in fund balance when the highway part-town fund had

³ DWI revenues are not included in this amount.

⁴ Appropriations are budgeted expenditures.

⁵ Town officials budgeted for \$50,000 in State aid, which they did not expect to receive.

only \$58,698 available. In the 2012 budget, the Board appropriated \$40,000 of unexpended surplus funds when the highway part-town fund had only \$17,710 available (Table 2).

Table 2: Highway Part-Town Fund Results of Operations

	FY 2010	FY 2011	FY 2012
Beginning Total Fund Balance	\$63,773	\$58,698	\$17,710
Revenues	\$1,208,392	\$1,202,551	\$1,157,612
Expenditures	\$1,213,418	\$1,243,539	\$1,204,550
Operating Surplus/(Deficit)	(\$5,026)	(\$40,988)	(\$46,938)
Prior Period Adjustment	(\$49)	\$0	\$0
Available Surplus Funds for Appropriation	\$58,698	\$17,710	(\$29,228)
Less: Appropriated Fund Balance	\$125,000	\$40,000	\$0
Year-End Unexpended Surplus Funds	(\$66,302)	(\$22,290)	(\$29,228)
Adjustment for Misallocated Retirement Contributions			(\$46,549)
Adjusted Year-End Unexpended Surplus Funds			(\$75,777)

Although the Supervisor provided accurate monthly financial reports to the Board that included year-to-date budget-to-actual comparisons for these funds, the Board failed to address its over-appropriation of unexpended surplus and over-estimation of revenues⁶ during the year by reducing appropriations to control spending. However, for 2012, the Board did not appropriate any fund balance in the general town-wide fund budget. Also, in the 2013 budget, the Board approved a substantial property tax increase to offset an increase in appropriations of \$212,110,⁷ decreased estimated revenues by \$105,217,⁸ and did not appropriate fund balance in either fund. But, Town officials have not developed a comprehensive multiyear financial plan to adequately address the Town's operational and capital needs.

We also found that the general town-wide fund is paying a larger-than-appropriate share of the Town's retirement contributions. For example, we calculated that in 2012 the general town-wide fund's share of the total contribution should have been \$46,210, rather than the \$90,207 that was charged to that fund. Also, the general part-town fund's allocation was approximately \$2,000 too much. Conversely,

⁶ The Board overestimated sales tax by approximately \$70,000 in total from 2010 to 2012.

⁷ The Board increased appropriations in all operating funds, which were due mainly to the addition of workers' compensation insurance (\$118,050) and retirement costs (\$34,800) in the general town-wide fund, and retirement (\$22,000) and debt service costs (\$34,100) in the highway part-town fund.

⁸ The Board decreased revenue estimates for all operating funds, including \$57,117 in the general town-wide fund, \$25,920 in the highway part-town fund, and \$22,180 in the general part-town fund.

we calculated that the highway part-town fund's share should have been \$86,549, rather than the \$40,000 that was allocated to this fund. Because these funds do not share the same tax base, town-wide taxpayers are paying a larger-than-appropriate share of the tax burden as a result of this misallocation of retirement contributions.

The Board also must address an overspent capital project from several years ago of \$35,427. After adjusting for the retirement contributions misallocation and the overspent capital project, we calculated that the general town-wide fund should have had a recorded deficit of \$19,656 as of December 31, 2012, and the highway part-town fund should have had a recorded deficit of \$75,777. According to Town officials, they do not plan on addressing interfund activity until the general town-wide fund is in a better fiscal position. However, to delay addressing taxpayer inequity issues because it is inconvenient is not an acceptable solution.

The Board's failure to monitor and adjust the Town's budget during the fiscal year can lead to unplanned operating deficits, which can quickly deplete fund balance, leaving nothing to finance unanticipated costs or to help fund future budgets. To address these deficits and develop structurally balanced budgets, the Board must increase revenues and/or decrease appropriations. In addition, long-term planning can help residents and elected local government officials identify the potential affect of fiscal decisions and provide a means for soliciting public input and establishing practical goals for managing fiscal changes over time.

Recommendations

1. The Board should monitor the availability of unexpended surplus and actual revenues received against the estimates in the adopted budget and make amendments, as necessary, to the budget when shortfalls become known.
2. The Supervisor should correct the accounting records to properly reflect the interfund activity caused by the improper allocation of retirement contributions and the Board's failure to properly fund a capital project.
3. The Board should develop and implement a plan to eliminate the fund deficits.
4. The Board should develop a comprehensive multiyear financial plan to establish long-term objectives for funding long-term needs.
5. The Board should adopt budgets and allocate expenditures based on actual costs.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

SUPERVISOR
CECIL M. MILLER III

TOWN CLERK AND
RECEIVER OF TAXES AND ASSESSMENTS
MICHAEL C. ERLANDSON MBA

SUPT. OF HIGHWAYS
MARVIN E. SHELLHOUSE

ASSESSOR
RANDALL G. HOLCOMB

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TOWN COUNCIL
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LISA A. VANSTROM
ROBERT F. PICKETT JR.

ATTORNEY
WILLIAM L. WRIGHT JR

State of New York Office of the State Comptroller
Buffalo Regional Office
295 Main St. Suite 1032
Buffalo, NY 14203

Re: Appendix A, Local Officials' Response to Audit

Top Whom It May Concern:

In response to the draft findings of the examination of the Town of Ellicott by the Office of the State Comptroller, I would first like to say that the Examiner's, [REDACTED] and [REDACTED] were very courteous and professional to work with. They were very accommodating to our schedules and we found them to be very consultative throughout the process.

The Town Officers are in agreement with the recommendations in the draft report. The goal of the Ellicott Town Council has been not to burden our residents with ever-increasing property taxes - especially during the difficult financial times of the past several years. Due to decreasing revenues, the increase in uncontrollable costs and our aversion to tax increases, the Town has fund deficits. However, the 2013 budget year is on pace to end with significant surpluses due to cost control measures taken by the board. This will allow us to address the interfund activity mentioned in the draft report.

We concede that the Town of Ellicott has faced financial stress over the past three years. We have addressed many of the issues facing the town as evidenced by our 2013 positive budget variances. We have also partnered with a local CPA firm for general accounting services. Ellicott also has very little long term debt and has been able to meet our current obligations. We look forward to the final report and will address all recommendations with a formal corrective action plan.

Sincerely,

Cecil M. Miller III, Town Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using the local government's annual update document (AUD)⁹ and information from the United States Census Bureau, New York State Department of Labor, and the New York State Education Department, among other sources. The Town has demonstrated signs of fiscal stress in several areas. Due in part to these fiscal stress indicators, we selected the Town for audit.

Our overall goal was to assess the Town's financial condition. To accomplish this, our initial assessment included a comprehensive review of the Town's financial condition.

To achieve our financial condition objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the Town's policies and procedures for developing and reporting information relevant to financial and budgeting activities, including the fiscal responsibilities of Town officials.
- We interviewed Town officials to determine what budget development processes were in place and gain an understanding of the Town's financial condition.
- We reviewed and analyzed the Town's financial records and reports for all funds, including balance sheets, budget reports, and statements of revenues and expenditures.
- We determined the reasonableness of budget estimates by comparing the adopted budgets to actual revenues and expenditures.
- We reviewed operating results over a three-year period (2010 to 2012).
- For 2012, we calculated retirement costs by fund using 2012 actual salaries and contribution rates.

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.

⁹ The Town is required to submit its AUD annually to the Office of the State Comptroller.

APPENDIX C

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