



Town of Caledonia

Financial Management

Report of Examination

Period Covered:

January 1, 2012 — October 16, 2013

2013M-363



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
FINANCIAL MANAGEMENT	5
Budgeting Practices	6
Payroll and Leave Records	11
Recommendations	12
APPENDIX A Response From Town Officials	14
APPENDIX B OSC Comments on the Town's Response	20
APPENDIX C Audit Methodology and Standards	21
APPENDIX D How to Obtain Additional Copies of the Report	23
APPENDIX E Local Regional Office Listing	24

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2014

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 Caledonia, 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 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 Caledonia (Town) is located in Livingston County and includes the Village of Caledonia (Village). The Town has a population of 4,255. It provides various services to its residents, including street maintenance, snow removal and general government support, which are financed through real property taxes and State aid. The Town's 2013 budgeted appropriations for the town-wide (TW) general, town-outside-village (TOV) general and TOV highway funds totaled approximately \$1.29 million. The TW fund has a tax base that encompasses the entire Town, including the Village. The TOV funds have tax bases that encompass only the portion of the Town that lies outside of the Village.

The Town is governed by an elected Town Board (Board) comprising a Supervisor and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor serves as the chief financial officer (CFO) and is also responsible for the day-to-day management of the Town under the direction of the Board. The Supervisor also serves as the Budget Officer. The Board has appointed an assistant to the Supervisor (assistant) who performs the financial recordkeeping duties and processes payroll. The appointed Highway Superintendent maintains leave records for the Highway Department, which includes four full-time employees in addition to himself.

Objective

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

- Did the Board properly monitor and manage the Town's financial operations?

Scope and Methodology

We examined the Town's financial management for the period January 1, 2012 through October 16, 2013. We expanded our scope back to 2008 and forward to December 31, 2013 to review the Town's budgeting trends and fund balance levels.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix C 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

disagreed with some of our findings and recommendations, but indicated they have begun and will continue to implement corrective action. Appendix B contains our comments on issues raised in the Town's response.

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 Supervisor's office.

Financial Management

The Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers who fund its operations. This responsibility requires the Board to implement policies and procedures governing budgeting practices, to help ensure that adopted budgets are structurally balanced and allocate financial activities to the proper funds to maintain taxpayer equity. The Board should prepare the annual budget based on actual financial results from prior years along with other available data, and periodically monitor the annual budget and amend it as necessary to ensure that expenditures do not exceed appropriations. The Board also has a responsibility to establish adequate controls over other financial operations, including payroll and leave time records, to ensure that the accrual and use of leave time is recorded accurately and in a timely manner, and monitored for appropriate use.

The Board did not develop policies and procedures for budget preparation and monitoring and, as a result, repeatedly adopted budgets with inaccurate estimates for revenues, expenditures and appropriated fund balance. In the TW general fund, the overestimation of expenditures and underestimation of revenues created a positive budget variance of nearly \$568,000 over five years; at the 2012 fiscal year end, the unrestricted fund balance amounted to 48 percent of the Town's general-fund expenditures for that year. Similarly, the 2012 year-end unrestricted fund balance in the TOV general fund amounted to 68 percent of the year's expenditures; and in the TOV highway fund, to 34 percent. These excess funds are considerably more than reasonably necessary for a financial cushion, and can result in taxpayer moneys lying idle rather than being used productively. Additionally, the Board did not appropriately allocate the Deputy Highway Superintendent's compensation, placing an inequitable burden on TW¹ taxpayers.

We also found that the Board did not establish sufficient controls over payroll records and leave time. Employees did not keep daily time records of regular and overtime hours worked or leave time used, and did not formally request leave time usage. Thus, payroll reports did not include leave time usage, and inaccurately reported all paid hours as hours worked. In addition, the Highway Superintendent's sick leave accumulation surpassed the maximum by 64 days with leave time credited for 2013.

¹ The Town should charge the regular salary of the Deputy Highway Superintendent to the TOV highway fund, which is funded only by taxpayers who reside outside the Village. Thus, Village residents paid a higher tax than they would have if the salary was properly allocated.

Budgeting Practices

It is essential for the Board to establish policies and procedures that help ensure the adoption of realistic and structurally balanced budgets, so that recurring revenues finance recurring expenditures. In addition to accurate revenue and expenditure estimates during budget development, Town officials should have a reasonable estimate of the fund balance – i.e., the difference between revenues and expenditures accumulated from prior years – that will be available at the end of the current fiscal year. The Board is responsible for retaining enough unexpended surplus funds² at the end of the year to provide a reasonable financial cushion for unexpected events and cash flow in the ensuing year. The Board may then appropriate a portion of surplus fund balance as a financing source in the ensuing year's budget to reduce the tax levy. The appropriation of fund balance should result in a planned operating deficit³ which can be an effective tool to responsibly reduce surplus fund balance. However, the Board must use accurate fund balance estimates and careful planning to avoid over-appropriating fund balance and potential fiscal stress. Conversely, it is not a sound practice to routinely appropriate fund balance that will not be used because of budgetary surpluses built into revenue and expenditure estimates. This practice misleads taxpayers and often results in increases in excessive fund balance or much smaller decreases than budgeted, as well as potentially excessive tax levies.

The Town must maintain separate funds to account for transactions that are required by law to be accounted for as TOV activities, and the Board must ensure that financial activity is recorded in the proper funds to maintain taxpayer equity. Generally, compensation for highway employees should be allocated to the highway fund,⁴ with the exception of the Highway Superintendent.

Town Law, guidance from the Office of the State Comptroller, and sound fiscal management practices also require the Board to monitor the budget and ensure that appropriations are available

² 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).

³ A planned operating deficit occurs when the Board intentionally adopts a budget in which expenditures are greater than anticipated revenues, with the difference to be made up by appropriated fund balance.

⁴ The Town maintains only a TOV fund for highway expenditures, as it has no bridge expenditures which would necessitate a TW highway fund.

before expenditures are made. A review of monthly budget-to-actual reports throughout the year can alert the Board to revenue shortfalls that should be addressed and ensure that, in accordance with law, expenditures are not made without available appropriations.

The Board did not adopt budget policies and procedures for accurately estimating revenues, expenditures, and available fund balance and for determining the appropriate levels of unexpended surplus funds to retain at year-end and to appropriate as a funding source in the budget. The Supervisor prepared an estimate of fund balance to use during the budget process, but he did not share this information with the Board. As a result, the Board consistently adopted budgets with unrealistic estimates of revenues, expenditures and the amount of fund balance to be used to fund operations. The inaccurate budgets caused significant budget variances and resulted in appropriated fund balance going unused, instead of the planned operating deficits that fund balance appropriations are supposed to generate; fund balances were not actually reduced at the levels represented to taxpayers in the adopted budgets. These budgeting practices have resulted in the Town retaining a higher level of unexpended surplus funds.

In addition, although the Supervisor monitored the budget and proposed necessary budget amendments to the Board,⁵ he did not provide each Board member with budget-to-actual reports to monitor the budget throughout the year. Town officials told us at our exit conference that they make one copy of the budget-to-actual report available for Board members to review during the meeting. Continued reliance on poor budgeting practices could result in the accumulation of more excessive funds, or create financial difficulties for the Town. Tables 1 through 3 illustrate the significant budget variances and operating results for the TW general and TOV general and highway funds over five years.

Town-Wide Fund – The Board has not effectively budgeted accurate estimates of revenues, expenditures or the amount of fund balance to be used to reduce the TW general fund tax levies.

⁵ The Board minutes indicate that the Board regularly approved budget amendments.

**Table 1: Town-Wide General Fund
Budget-to-Actual and Operating Results**

	2008	2009	2010	2011	2012
Budgeted Revenues Less Real Property Taxes ^a	\$96,922	\$96,422	\$97,411	\$99,260	\$106,860
Actual Revenues Less Real Property Taxes	\$141,466	\$142,788	\$141,822	\$167,214	\$159,989
Variance	\$44,544	\$46,366	\$44,411	\$67,954	\$53,129
Variance Percentage	46%	48%	46%	68%	50%
Budgeted Expenditures	\$472,347	\$477,301	\$476,066	\$518,128	\$517,388
Actual Expenditures	\$403,370	\$410,602	\$418,472	\$458,684	\$458,644
Variance	\$68,977	\$66,699	\$57,594	\$59,444	\$58,744
Variance Percentage	15%	14%	12%	11%	11%
Appropriated Fund Balance	\$76,700	\$90,000	\$84,000	\$110,000	\$105,000
Operating Surplus ^b	\$36,821	\$23,065	\$18,005	\$17,398	\$6,873
Unused Appropriated Fund Balance	\$76,700	\$90,000	\$84,000	\$110,000	\$105,000

^a We did not include real property taxes in our analysis of budgeted vs. actual revenues, as municipalities generally receive all taxes levied. For perspective, the tax levy in the 2011 through 2013 budgets averaged approximately \$307,000.
^b Actual revenues plus Real Property Taxes minus actual expenditures

In the TW general fund, the Town overestimated expenditures in each of the five years by a total of \$311,458 while underestimating revenues by a total of \$256,404, which resulted in a positive budget variance totaling \$567,862 for the period. Most of the inaccurate estimates were spread throughout the line items, but most significantly, the Town routinely overestimated health insurance expenditures⁶ and underestimated mortgage tax revenues.⁷ Consequently, all \$465,700 of appropriated fund balance was unused. Although by appropriating fund balance the Board gave the impression that it planned to reduce fund balance to a reasonable level, the consistent budget inaccuracies in fact caused small annual operating surpluses and allowed the Town to continue to maintain its excessive fund balance. As of December 31, 2012, the total unrestricted fund balance of \$221,522 amounted to 48 percent of 2012 expenditures, which exceeds the reasonable cushion necessary for the ensuing fiscal year.

Town-Outside-Village Funds – As with the TW general fund, the Board has not effectively budgeted accurate estimates of revenues, expenditures or the amount of fund balance to be used for the individual TOV general and highway funds. As a result, the combined TOV funds accumulated an unreasonable level of unexpended surplus funds.

⁶ In the TW fund, by \$20,621 (56 percent) in 2011 and \$10,784 (29 percent) in 2012, with an increase budgeted in 2013

⁷ By \$27,206 (124 percent) in 2011 and \$23,598 (98 percent) in 2012 with the same budget estimate in 2013

**Table 2: Town-Outside-Village General Fund
Budget-to-Actual and Operating Results**

	2008	2009	2010	2011	2012
Budgeted Revenues Less Real Property Taxes ^a	\$7,800	\$12,400	\$13,565	\$11,065	\$12,065
Actual Revenues Less Real Property Taxes	\$10,130	\$12,422	\$16,756	\$17,386	\$20,724
Variance	\$2,330	\$22	\$3,191	\$6,321	\$8,659
Variance Percentage	30%	0%	24%	57%	72%
Budgeted Expenditures	\$76,010	\$75,050	\$75,345	\$78,318	\$80,118
Actual Expenditures	\$67,539	\$66,906	\$68,640	\$69,089	\$67,615
Variance	\$8,471	\$8,144	\$6,705	\$9,229	\$12,503
Variance Percentage	11%	11%	9%	12%	16%
Appropriated Fund Balance	\$16,000	\$10,500	\$10,000	\$10,000	\$12,500
Operating Surplus/(Deficit) ^b	(\$5,199)	(\$2,334)	(\$104)	\$5,550	\$8,662
Unused Appropriated Fund Balance	\$10,801	\$8,166	\$9,896	\$10,000	\$12,500

^a The tax levy included in the 2011, 2012 and 2013 budgets averaged approximately \$55,000.

^b Actual revenues plus Real Property Taxes minus actual expenditures

In the TOV general fund, the Board consistently overestimated expenditures and underestimated revenues, resulting in positive budget variances each year. As a result, operating deficits were less than planned in 2008 through 2010 and the fund had operating surpluses in 2011 and 2012. Therefore, \$51,363 (87 percent) of the appropriated fund balance was unused, and fund balance increased over the five-year period. As of December 31, 2012, the total unrestricted fund balance amounted to 68 percent of 2012 expenditures

**Table 3: Town-Outside-Village Highway Fund
Budget-to-Actual and Operating Results**

	2008	2009	2010	2011	2012
Budgeted Revenues Less Real Property Taxes ^a	\$224,071	\$233,440	\$271,949	\$247,123	\$261,897
Actual Revenues Less Real Property Taxes	\$378,908	\$343,126	\$394,785	\$399,851	\$265,953
Variance	\$154,837	\$109,686	\$122,836	\$152,728	\$4,056
Variance Percentage	69%	47%	45%	62%	2%
Budgeted Expenditures	\$532,130	\$605,046	\$636,397	\$637,475	\$618,668
Actual Expenditures	\$663,393	\$549,112	\$635,146	\$762,906 ^b	\$553,920
Variance	(\$131,263)	\$55,934	\$1,251	(\$125,431)	\$64,748
Variance Percentage	(25%)	9%	0.2%	(20%)	10%
Appropriated Fund Balance	\$84,968	\$80,000	\$105,000	\$100,000	\$106,000
Operating Surplus/(Deficit) ^c	(\$41,394)	\$92,620	\$59,087	(\$72,703)	\$20,804
Unused Appropriated Fund Balance	\$43,574	\$80,000	\$105,000	\$27,297	\$106,000

^a The tax levy included in the 2011, 2012 and 2013 budgets averaged approximately \$308,300.

^b Including an unbudgeted equipment purchase totaling \$168,808

^c Actual revenues plus Real Property Taxes minus actual expenditures

In the TOV highway fund, the Board underestimated expenditures by a total of \$134,761 during the five years but also underestimated revenues by \$544,143, which generally offset the negative expenditure budget variances as well as the appropriated fund balance. While revenues were more closely aligned in 2012 due to a decrease in revenues received for services provided to New York State, revenues in 2013 exceeded total estimates by over \$113,000.⁸ Over the five-year period the budgets generated a positive budget variance of \$409,382. As a result, operating deficits were less than planned in 2008 and 2011 and there were operating surpluses in the three other years. Therefore, \$361,871 (76 percent) of appropriated fund balance was unused. As of December 31, 2012, the total unrestricted fund balance amounted to 34 percent of 2012 expenditures.

As of December 31, 2012 the combined unexpended surplus funds for both TOV funds, including the portion appropriated but consistently unused, totaled \$205,573, or 33 percent of the 2012 combined expenditures. However, without addressing the budgeting deficiencies of the individual TOV funds, the Town may continue to accumulate and retain unreasonable levels of unexpended surplus fund balance in one or both funds.

We found that the Board's 2013 budget estimates for expenditures, revenues, and appropriated fund balance were relatively consistent with prior years. As a result, our review of 2013 year-end reports⁹ indicated that both TOV funds again had operating surpluses and positive budget variances and did not use any of the appropriated fund balances, and reported a combined 9 percent increase in unreserved fund balance. The TW general fund had its first operating deficit (\$76,145) and used 69 percent of its appropriated fund balance in 2013, but only because of a large unbudgeted equipment purchase. However, the Board's 2014 budget estimates, for all three funds, were consistent with prior years, and will likely result in continued operating and budgetary surplus and additional increases in fund balance.

Additionally, over the past six years (2008 through 2013) the Town incorrectly budgeted all of the Deputy Highway Superintendent's salary in the TW general fund, instead of including only the supplemental compensation¹⁰ in the TW general fund and the remainder in the TOV highway fund. This created inequities between the TW and TOV tax bases for the remaining compensation totaling \$296,623, which resulted in the Village residents paying more

⁸ According to unaudited year-end financial information received from the Town on January 27, 2014

⁹ We received unaudited year-end financial reports from the Town on January 27, 2014, for an updated perspective.

¹⁰ Any increase above regular pay for a highway employee to perform the duties of Highway Superintendent as the Deputy

toward highway administrative costs than they should have. Since Village properties make up 44 percent of the total assessment used to calculate TW taxes, Village taxpayers paid approximately \$130,500 more in taxes, over six years, than they would have paid had the Town properly allocated the Deputy's salary to the TOV highway fund. Town officials were unaware that the Deputy's compensation should be included in the TOV highway fund and indicated they will make the required changes in the 2015 budget.

The Board could make its budgets much more structured, reliable and transparent to taxpayers by including more accurate revenue and expenditure estimates, allocating all costs to the appropriate funds, and appropriating only the amount of fund balance that will likely be used. Additionally, the Board will be better informed and able to adopt more accurate budgets if it receives accurate fund balance estimates, as well as detailed monthly budget-to-actual reports, from the Supervisor.

Payroll and Leave Records

Town officials are responsible for adopting policies and procedures to ensure that payroll records are complete and accurate and that leave time benefits are clearly defined and properly administered. The Board should clearly stipulate each employee's entitlement to leave benefits, such as the accrual and use of vacation, sick and personal leave. The Board and Town officials should enforce policy limitations on the accrual and use of leave time and monitor leave accrual and usage records to prevent the misuse of leave benefits.

The Board authorized leave benefits for highway employees within the highway rules and regulations. Employees earn one sick day per month, three personal days per year and vacation time based on years of service. The maximum accumulation authorized is 165 days for sick leave¹¹ and four days for personal leave.

The Board has not adopted policies or procedures for the reporting and recording of hours worked or of leave time used and accrued. We found inadequate time records and insufficient controls to ensure that leave time was properly reported, recorded and used.

Full-time highway employees do not prepare daily time records for regular and overtime hours worked, including start and end times, or for leave time used. Further, they do not formally request approval to use leave time. Employees record overtime hours worked in a manually maintained time book (log) with no time clock or other system in place to verify that they worked those extra hours. The Highway Superintendent reviews these time books and completes a payroll summary sheet with regular and overtime hours for processing by the assistant. The Highway Superintendent also maintains

¹¹ Which can be used at retirement for additional retirement service credit

employee leave records that track leave earned and used and available balances; however, there is no independent review of those records. Additionally, the Highway Superintendent does not report leave time hours used on the time summaries he provides to the assistant (who processes payroll) even though the software the assistant uses has the capability to track leave time.¹² Therefore, the payroll reports are inaccurate because they do not contain leave time hours taken and instead report all hours as either regular or overtime hours worked.

We found that leave time was sometimes deducted from employees' balances; however, because the payroll reports did not include leave time usage and there was no formal leave request process, we were unable to verify that all leave time is properly deducted when used. We also reviewed the leave time earned and accumulated balances maintained by the Highway Superintendent to compare with authorized amounts, and found that the total annual amount of sick leave was incorrectly accrued at the beginning of the year instead of one day per month. In addition, the Highway Superintendent's recorded sick leave accumulation surpassed the maximum allowed in both 2012 and 2013; in fact, even though he had 217 days accrued at the end of 2012 (52 days over the 165-day maximum), the Superintendent added the 12 days allowed for 2013 and increased his sick leave balance to 64 days more than allowed. The Superintendent also did not record the use of any sick leave for the past six years. As a result, the Superintendent may receive unauthorized monetary benefits in the event of a long-term illness or injury.

The Board's lack of oversight of payroll, timekeeping and leave time procedures and records allowed errors and non-compliance to occur and go undetected. These control deficiencies increase the risk of leave time benefits being abused.

Recommendations

1. The Board should adopt policies and procedures for the budgeting process, which include defining reasonable amounts of unexpended surplus funds that the Town should maintain.
2. The Board and Town officials should develop and adopt budgets with realistic estimates of revenues and expenditures, and appropriate fund balance only in amounts that are available and necessary to fund operations.
3. The Supervisor should provide the individual Board members with interim detailed budget-to-actual reports for their use in monitoring revenues and expenditures throughout the year.

¹² The Town switched software packages during the audit period. Officials were unsure if the previous software would have allowed leave to be tracked, and said they had not considered using the software for that purpose.

4. The Board should adopt budgets with equitable allocation of the Deputy Highway Superintendent's wages in the proper fund.
5. The Board should establish payroll policies and procedures requiring employees to prepare daily time records for all regular and overtime hours worked and leave time used, and providing guidance for employees who prepare the payroll and maintain leave records. The Board should also ensure that the payroll reports include hours worked and leave time used.
6. The Board should ensure that accurate leave records are maintained and accruals and leave used are in accordance with Board authorizations.
7. The Highway Superintendent should approve the use of leave time in accordance with Board authorizations.

APPENDIX A
RESPONSE FROM TOWN OFFICIALS

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



Town *Of Caledonia*

3109 Main Street • Caledonia, NY 14423-0050
(585) 538-4927 • Fax (585) 538-6348



March 14, 2014

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
Rochester Regional Office
The Powers Building
16 West Main Street – Suite 522
Rochester, NY 14614-1608

Dear Mr. Grant:

Please be advised that the Town of Caledonia has received a copy of the draft audit report “Financial Management” on February 19, 2014. The Town Supervisor and Town Board understand that the State Comptroller’s top priority is to establish and maintain a strong partnership between its office and local governments of the State of New York. The Town Board realizes your primary focus and objective of this partnership is to identify areas where local governments can improve their fiscal operations and provide meaningful recommendations that will assist them in making those improvements. The Town of Caledonia will continue to be fiscally responsible and accountable for tax dollars spent.

This response will constitute the requirements of a written response and corrective action plan to the recent audit for the Town of Caledonia 2013M-363.

The Town of Caledonia Officials want to thank the auditors for bringing things to our attention during the audit process that we were not aware of, and the Town has been working on implementing the polices and procedures that the auditors made.

The following is our response to the Comptroller's report.

By and large we do not agree with the majority of this report.

It seems that the Town of Caledonia Officials and the Office of the State Comptroller have differing budgeting philosophies on fund balance and policies and procedures for budget preparation. We have followed the process and teachings of our predecessors in the budget process and financial management philosophies of the Town. Although our methods might not necessarily be accepted as proper in the New York State Comptroller's guidelines, we are taxpayers in our Town and Village and we always have the taxpayer's best interest at heart. We have **NO TOWN WIDE DEBT** and believe in the Pay-As-You-Go budgeting practice.

In reference to excessive fund balances in the Town Wide and Town Outside Village, we have reserve accounts for them and in December at year-end, the Town Board reviews fund balances and transfers of monies are put into Buildings Capital Reserve and Equipment Capital Reserve Accounts. These Reserve Accounts are for future equipment purchases according to our Future Equipment Purchase Plan and Buildings Fund for the upkeep of buildings, repairs and funding for our new future highway barn, which is desperately needed. At budget time we use fund balances to offset the following years tax rate. This year we used more fund balance to offset the tax rate because of uncontrollable costs and unfunded mandates. Our intent is to monitor fund balances in a conservative manner to insure we can continue to stick to our plans for Buildings Capital Reserve and Equipment Capital Reserve.

See
Note 1
Page 20

The budget process starts each year in August. Each Town Board Councilperson receives up to date expenditures and revenues on their worksheets. The Board reviews and monitors the Town's revenues and expenditures on a monthly basis at the Town Board Meetings. In September, October, and November, prior to adopting the budget, they receive updated budget sheets. All Town Board members and department heads are given the opportunity to give their input and or suggestions on budget line items. All procedures are followed and budgets are passed in accordance to The New York State Town Law Budgetary Process.

As far as Payroll Records and Accounting Software, the Supervisor's Secretary has kept impeccable records for the Town of Caledonia for over 24 years. There has never been a question of the integrity and accuracy of what has been kept track of for payroll in our Accounting system. The Highway Superintendent has in the past been charged and going forward will continue to be charged with keeping the leave records of the highway employees. The Highway Superintendent turns in Bi-Weekly Payroll Sheets to the Supervisor's Secretary for payroll processing and we have never had an issue with leave benefits. Leave records are now also being reported on the bi-weekly payroll sheets submitted by the Highway Superintendent and are now being kept on the Town payroll software to ensure accuracy. Due to a clerical error on the Highway Superintendent's part he had erroneously accumulated extra sick days. The Highway Superintendent's sick days have been adjusted to the 165 day maximum and he is no longer accruing more days.

The Town of Caledonia's budget process is to budget revenues and expenditures conservatively because of the various unknown amount of revenue and expenses for the coming year. The Town estimates expenditures for the upcoming year's budget conservatively because some costs won't be known until after the budget has been passed. The Town revenues are estimated conservatively because the Town is never certain of what revenue monies they will be receiving in the upcoming year.

See
Note 2
Page 20

First and foremost, I would like to make it perfectly clear that as the Supervisor of the Town of Caledonia, I share all financial data and information with the Town Board on a monthly basis, especially during the budget preparation period. I don't know where the misunderstanding happened when the auditor asked about the financial management and states in the audit that I do not share this information with the Town Board. The Board does monitor revenues and expenditures on a monthly basis when reviewing the Abstract, Vouchers and Supervisor's Report at our Board meetings. The Supervisor's Report includes detailed budget-to-actual reports for revenues and expenditures and trial balances and since November 2013 now includes a sign off sheet.

See
Note 3
Page 20

See
Note 4
Page 20

According to the auditor, from 2008 through 2013 the Town incorrectly budgeted all of the Deputy Highway Superintendent's salary in the Town Wide General Fund, instead of including only the supplemental compensation in the Town Wide General Fund and the remainder in the Town Outside Village Highway Fund. For over 30+ years the Deputy Highway Superintendent's pay was always budgeted in the Town Wide General Fund because he was part of management and administration. The Town Board was unaware that this compensation should have been in the Town Outside Village portion of the budget. The Town has been through audits from the State Comptroller's Office in the past and they never recommended that the compensation be moved. This will be addressed and moved to the proper fund in the upcoming 2015 budget.

Town of Caledonia Response to Recommendations

Recommendation 1:

The Board should adopt policies and procedures for the budgeting process, which include defining reasonable amounts of unexpended surplus funds that the Town should maintain.

The Town feels that the current fund balance levels are reasonable and are not excessive based on this uncertain economic climate. The Town will document more specific steps followed during the budgeting process. The Town Board will address this by the end of this year (2014).

Recommendation 2:

The Board and Town Officials should develop and adopt budgets with realistic estimates of revenues and expenditures, and appropriation of fund balance only in amounts that are available and necessary to fund operations.

The Town will continue to review revenues, expenditures, and appropriations that will be fiscally prudent to fund our operations and our intent will be to monitor fund balances in a conservative manner with the taxpayers best interest at heart. This will be addressed in the preparation of the upcoming 2015 budget.

Recommendation 3:

The Supervisor should provide the individual Board members with copies of interim, detailed budget-to-actual reports for their use in monitoring revenues and expenditures throughout the year.

Detail-budget-to-actual reports and revenue and expenditure reports are available at each board meeting for the board to review. Upon their request we will provide individual copies of these reports for them to review. This has always been the practice at each monthly board meeting and during the budgeting process. Effective November of 2013 we created a sign off sheet that each board member signs stating that they have reviewed all monthly reports which include budget-to-actual reports for revenues and expenditures and trial balances for each month.

See
Note 4
Page 20

Recommendation 4:

The Board should adopt budgets with equitable allocation of the Deputy Highway Superintendent's wages in the proper fund.

The Deputy Highway Superintendent's wages will be allocated from the Town Outside Village (Highway DB Account) portion of the budget beginning in the 2015 Budget.

Recommendation 5:

The Board should establish payroll policies and procedures requiring daily time records for all regular and overtime hours worked and leave time used and providing guidance for employees who prepare the payroll and maintain leave records. The Board should also ensure that the payroll reports include hours worked and leave time used.

Payroll procedures are completed and currently being used. We have instituted the use of weekly log sheets of hours worked to be kept by each highway employee. Payroll reports now include leave time used along with hours worked. A formal policy for reporting and recording will be adopted by the Town Board by year end.

Recommendation 6:

The Board should ensure that accurate leave records are maintained and accruals and leave used are in accordance with Board authorizations.

Leave records and hours worked are signed by the Highway Superintendent and given to the Supervisor's Secretary for input into the Town's Payroll system and locked in a secure file cabinet.

Recommendation 7:

The Highway Superintendent should approve the use of leave time in accordance with Board authorizations.

A Leave of Absence Request Form has been instituted and being used since the beginning of this year and will continue to be used. This form must be approved or disapproved and signed by the Highway Superintendent. A copy is kept in the Highway Superintendent's files and the original is kept in a secure locked file in the Town Hall.

The Town Board and I are very proud of the financial stability and health of the Town of Caledonia. As previously stated, the Town of Caledonia has not incurred any Town wide debt and carefully reviews the revenue and expenses on a monthly basis to balance our budget.

The Town of Caledonia will take constructive measures to address the recommendations of your office, as set forth in the draft audit report. Many of the corrections identified deal with record management, and the Town will incorporate the changes as recommended.

The Town will work together with your office to serve the taxpayers of the Town of Caledonia to provide the best services to the citizens while also recognizing the challenge to control taxes and expenditures in the best interest of the Town.

Best Regards,

✓
Daniel L Pangrazio
Supervisor

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

We did not criticize the Town's reserve fund balances, but assessed the level of unrestricted fund balance retained at year-end, net of appropriated and reserved fund balances. The Town's positive budget variances have rendered most of the appropriated fund balance unnecessary and unused and have routinely generated excess fund balance. Further, the Board can reduce its unrestricted fund balance by authorizing additional transfers to its reserve funds, as deemed necessary to fund future capital expenditures.

Note 2

While a conservative approach to budgeting has its merits, it must be re-evaluated in light of repeated surpluses. Maintaining a substantial fund balance, in addition to budgeting very conservatively, results in a higher real property tax levy than necessary.

Note 3

The Supervisor specifically stated to us that he prepares an estimate of year-end fund balance when preparing the ensuing year's budget, but does not provide that information to the Board members because they may want to use the extra money if they see it is available. The Supervisor said he provides to the Board members only his recommended amount of fund balance to appropriate in the budget and gives them a snapshot of actual fund balance at the end of the fiscal year when it is too late to be considered for the budget process.

Note 4

Board members should require and should each receive, from the Supervisor, copies of detailed monthly budget-to-actual reports and thoroughly review them to effectively monitor Town operations against the budget throughout the year. Making one copy of this detailed report available for all Board members to review during the course of the Board meeting does not allow adequate time for review and does not facilitate the Board's ongoing financial management and decision-making. The Supervisor can (and should) easily provide this information to Board members by means such as email to provide time to review the reports prior to the Board meeting.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: Board oversight, financial management, cash receipts and disbursements, purchasing, payroll and information technology. During the initial assessment, we interviewed Town officials, performed limited tests of transactions and reviewed pertinent documents such as policies, Board minutes and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial management for further audit testing.

To accomplish our objective, we reviewed financial management for the period January 1, 2012 through October 16, 2013. We expanded the scope back to 2008 and forward to December 31, 2013 to review the Town's budgeting trends and fund balance levels. To achieve the objective of this audit and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and employees to gain an understanding of the Town's budget process and to determine internal controls in place.
- We reviewed Town policies, the highway and non-highway rules and regulations, and Board minutes.
- We analyzed fund balance for the period 2008 through 2013. We also compared budgeted revenues and expenditures to actual operating results for 2008 through 2013.
- We reviewed individual line item budget-to-actual results for 2011 and 2012 and compared these results with the 2013 adopted budget.
- We reviewed total annual revenues and expenditures to determine the operating deficits or surpluses for each fund. We also reviewed budgets for 2008 through 2014 to determine the amount of fund balance that was appropriated for each fund each year. We compared the annual operating surpluses or deficits to the amount of appropriated fund balance for each year, and calculated the average amount of appropriated fund balance that was not used.
- We reviewed the budgeted compensation of the Deputy Highway Superintendent for 2008 through 2013 and determined the fund to which it was allocated. We reviewed the 2013 rules and regulations to determine the additional compensation for the Deputy position and discussed prior-year additional compensation with the assistant to the Supervisor who confirmed it has been the same (\$.50/hour) for the last six years. We then calculated the annual value of

this additional compensation by taking the number of hours per week and number of weeks worked per year to get a total number of hours worked per year and determined the dollar value for \$.50 per each of these calculated hours. We confirmed the hours and weeks used in the calculation with the assistant to the Supervisor. We reduced the total amount of compensation by the calculated value for the Deputy position, which gave us the total amount of the Deputy Highway Superintendent's compensation that should have been included in the TOV fund.

- We reviewed highway leave records for 2012 and 2013 maintained by the Highway Superintendent to determine if appropriate amounts were earned, balances were reduced for leave time used, and maximum accumulation limits were properly enforced.
- We reviewed time books maintained by the highway employees for a randomly selected month of February 2013.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313