



# Town of Minden

## Budgeting

### Report of Examination

Period Covered:

January 1, 2011 – July 31, 2014

2014M-366



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

May 2015

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Minden, entitled Budgeting. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Town of Minden (Town) is located in Montgomery County, includes the Village of Fort Plain (Village) within its boundaries, and has approximately 4,300 residents. The Town Board (Board) comprises five elected members: the Town Supervisor (Supervisor) and four Board members. The Board is the legislative body responsible for the overall management of the Town, including oversight of the Town's operations and finances, which includes adopting and monitoring the budget.

The Supervisor is the chief fiscal officer and is responsible for maintaining a record of all receipts, expenditures and account balances, and for providing the Board with timely, accurate and useful financial information. The Town accounts for most of its financial activity in the town-wide general fund, town-outside-village (part-town) general fund and part-town highway fund. The Supervisor appoints a bookkeeper who carries out the Supervisor's responsibilities of maintaining the accounting records. The Supervisor, as Budget Officer, is responsible for compiling initial budget estimates and producing a tentative budget subject to the Board's approval. The entire Board is responsible for adopting and monitoring the budget throughout the year and for ensuring the Town maintains a sound financial position.

The Town provides various services to its residents, including general administration, road maintenance, snow removal and fire protection. The Town's 2014 budgeted appropriations totaled approximately \$1.8 million and were funded primarily with real property taxes, sales tax and State aid.

## Objective

The objective of our audit was to review the Town's budgeting practices and addressed the following related question:

- Does the Town adopt structurally balanced budgets that contain reasonable estimates of revenues and expenditures and properly allocate sales tax revenues?

## Scope and Methodology

We interviewed Town officials, examined financial statements and budgets and reviewed Town procedures for the period January 1, 2011 through July 31, 2014.

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 B of this report.

**Comments of  
Local Officials and  
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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

## Budgeting

An essential component of the Board's duties and responsibilities is to make sound financial decisions that are in the best interests of the Town and taxpayers who fund its operations. This responsibility requires Board members to balance the level of services desired with the ability and willingness of residents to pay for such services. It is essential that the Board adopt a structurally balanced budget for all of its funds that provides recurring revenues to finance recurring expenditures. In addition, the Board must prepare the annual budget based on actual financial results from prior years along with relevant financial data. Lastly, when a town receives sales tax distributions, it should ensure that the sales tax revenues are budgeted for and allocated in accordance with statute.

During the audit period, the Board did not properly allocate the Town's sales tax revenue to the part-town general or part-town highway funds. Instead, the Board consistently allocated sales tax to the town-wide general fund prior to allocating sales tax to the part-town funds. We also found that the Board adopted budgets with unrealistic estimates of revenues, expenditures and the amount of fund balance to be used to finance operations in the part-town highway fund.

Sales Tax Allocation – The Village of Fort Plain is located within the Town's boundaries. New York State Tax Law provides that, if a town with a village receives sales tax payments from the county and the village also receives such payments directly from the county, the town must first use the sales tax proceeds to benefit the area outside the village.<sup>1</sup> If a town eliminates the real property tax levy in its part-town funds, it can then choose to allocate a portion of its sales tax moneys to its town-wide funds.

The Town's method of allocating sales taxes is not in compliance with statute. The Town improperly allocated portions of its sales tax revenue to the town-wide general fund without first eliminating the tax levies in the part-town funds. As such, taxpayer inequities have occurred between the tax base covering the complete Town and the tax base covering the part of the Town outside the Village boundaries. During the 2011 through 2013 fiscal years, the Town received sales tax revenues totaling \$1,279,385. The Town allocated the sales tax to the town-wide general fund (\$398,000), part-town general fund (\$31,000) and part-town highway fund (\$850,385). During that same period, the Board levied taxes totaling \$562,620 in the part-town general and part-town highway funds.

<sup>1</sup> Such operations are accounted for in the part-town funds.

In effect, Town taxpayers with real property located in the Village have received an extra benefit from sales tax distributions from the county at the expense of taxpayers with property located outside the Village. As a result, the tax levy in the town-wide general fund was incorrectly reduced by the sales tax allocated in the amounts of \$125,000 in 2011, \$104,000 in 2012 and \$169,000 in 2013. Town officials could not provide us with an explanation as to why they allocated sales tax revenues in this manner. We reviewed the 2014 and 2015 adopted budgets and found that the Town did not allocate any sales tax revenue to the town-wide general fund. Therefore, there should be no taxpayer inequities regarding sales tax distribution in these budgets.

Part-Town Highway Fund Budget Estimates – In addition to ensuring it adopts realistic budget estimates for revenues and expenditures, the Board may appropriate fund balance to finance a portion of the Town’s operations. An appropriation of fund balance is the use of unexpended resources from prior years to finance budget appropriations and is considered a one-time financing source. It is considered an acceptable budgeting practice to appropriate fund balance when a local government has accumulated an adequate level of surplus fund balance. If revenues and expenditures realized are in line with budget estimates, the appropriation of fund balance will result in the fund realizing a planned operating deficit at the end of the year.

The Town consistently adopted budgets with unrealistic estimates of revenues and expenditures in the part-town highway fund. Actual revenues consistently exceeded estimates while actual expenditures consistently were much less than the amounts budgeted. As a result of the consistently inaccurate budget estimates, the Town only used a small portion of the fund balance amounts it had appropriated to finance operations in the 2012, 2013 and 2014 fiscal years. Continued reliance on poor budgeting practices could result in the accumulation of an excessive level of fund balance or higher than necessary tax levies to fund operations in the part-town highway fund. Figure 1 illustrates the part-town highway fund’s significant budget variances and operation results for the 2012 through 2014 fiscal years.

**Figure 1: Part-Town Highway Fund Budget-to-Actual Operating Results**

	2012	2013	2014 <sup>a</sup>	Totals
Budgeted Revenues	\$691,963	\$705,373	\$808,609	<b>\$2,205,945</b>
Actual Revenues	\$831,985	\$802,896	\$892,472	<b>\$2,527,353</b>
Variance	\$140,022	\$97,523	\$83,863	<b>\$321,408</b>
Budgeted Appropriations	\$1,107,799	\$1,139,423	\$1,158,609	<b>\$3,405,831</b>
Actual Expenditures	\$821,634	\$861,696	\$911,923	<b>\$2,595,253</b>
Variance	\$286,165	\$277,727	\$246,686	<b>\$810,578</b>
Appropriated Fund Balance	\$415,836	\$434,050	\$350,000	<b>\$1,199,886</b>
Operating Surplus/(Deficit)	\$10,351	(\$58,799)	(\$19,451)	<b>(\$67,899)</b>
Unused Appropriated Fund Balance	\$415,836	\$375,251	\$330,549	<b>\$1,121,636</b>

<sup>a</sup> We obtained updated information subsequent to our fieldwork.

Town officials overestimated part-town highway fund expenditures over the three-year period by a total of \$810,578, or 24 percent of the total budgeted appropriations. The Town routinely included appropriations for the purchase of equipment in the annual budgets; however, the Town only used a small amount of these appropriations. For example, the 2013 budget included an appropriation for the purchase of equipment totaling \$139,900; however, the actual expenditures for equipment totaled \$5,011, a difference of \$134,889. Revenues were underestimated by a total of \$321,408 (13 percent) during the three-year period. Most significantly, the Town routinely underestimated sales tax revenue. The Town budgeted \$1,134,000 for sales tax revenues during this time; however, the actual sales tax revenues totaled \$1,352,501, or 119 percent of the budgeted amount. These budgeting practices resulted in the fund realizing an operating surplus of \$10,351 in 2012, an operating deficit totaling (\$58,799) in 2013 and an operating deficit of (\$19,451) in 2014. During the three years, the Town annually appropriated approximately \$400,000 of fund balance to finance operations, for a total of almost \$1.2 million. These material appropriations of fund balance would normally result in similar amounts of annual operating deficits; however, the combined operating deficit totaled (\$67,899) for the three years.

By appropriating approximately \$1.2 million of fund balance over the three years, while at the same time deliberately providing for budgetary surpluses because of overly conservative revenue and expenditure estimates, the Town has used only a minimal amount of fund balance to finance operations in comparison to what its adopted budgets implied it was going to use. This has resulted in budgetary practices that are not transparent to the Town's taxpayers and raising property taxes in excess of what was actually needed to finance part-town highway operations.

We also reviewed the adopted 2015 budget and determined that revenue estimates of \$905,000 were more in line with previous years'

results of operations. While appropriations of \$1,055,000 were higher in comparison with previous years' results, the estimate was closer than it had been in the past. The Town significantly decreased the amount of appropriated fund balance in the budget to \$150,000, which represents 38 percent of the average appropriated for the 2012 through 2014 fiscal years. As such, it is likely that the part-town highway fund's results of operations may not vary as significantly from the adopted budget as they had in the past.

## **Recommendations**

The Board should:

1. Budget and allocate its sales tax revenues in compliance with statute.
2. Seek legal counsel to determine what remedies are available to address the \$398,000 in tax payer inequities due to the improper allocation of sales tax revenues.
3. Adopt part-town highway fund budgets with realistic estimates of revenues and expenditures.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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

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ASSESSORS  
518-993-4844  
COURT  
518-993-3616

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May 21, 2015

[REDACTED]  
Division of Local Government and School Accountability  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801  
[REDACTED]

This resolution was adopted at the regular meeting of the Town of Minden Board held on May 20, 2015.

Be it resolved that we, the Town of Minden Board, adopt the following as the response and Corrective Action Plan addressing the findings of Audit 2014M-366 conducted by the Office of the State Comptroller:

- As noted in the Audit Report, the 2014 and 2015 Town of Minden Budgets have been in compliance with the allocation of sales tax revenues exclusively in the Part-Town and Highway Part-Town Funds. The Board will ensure future budgets continue to allocate sales tax revenues in compliance with statute.
- The Board has reviewed a plan with the town attorney that, as a remedy, appropriately addresses the \$398,000 in taxpayer inequities due to the previous allocation of sales tax revenues to the Town-wide General Fund. This plan will be accomplished over a period of four fiscal years in the following manner:
  - Develop the annual Town budget projecting as realistically as possible the appropriations and estimated revenues (including projected tax rates) necessary for all funds.
  - Then, in Town-wide General appropriations establish an Interfund Transfer (to the Highway fund) in the amount of \$99,500 and increase the tax levy in Town-wide General by the same amount (keeping the General fund in balance).
  - Next, in Highway estimated revenues establish an Interfund Transfer (from the Town-wide General fund) in the amount of \$99,500 and decrease the tax levy in Highway by the same amount (keeping the Highway fund in balance).
  - This adjustment procedure would be followed in the Town budgets for fiscal years 2016, 2017, 2018, and 2019. It would be discontinued for 2020 and beyond.
- The Board believes that the adopted 2015 Town of Minden Budget is built on more realistic estimates of revenues and expenditures for the part-town and highway funds as well as the town-wide general fund. They will continue to review and refine the Town's budgeting practices in developing future budgets.

Please accept this as our official Response and Corrective Action Plan for OSC Audit 2014M-366.

Sincerely,

Cheryl A. Reese  
Town Supervisor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the Town adopted budgets that were structurally balanced. To accomplish our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed the Supervisor and bookkeeper regarding the Town's budgeting practices to gain an understanding of the budget process.
- We reviewed the monthly budget-to-actual reports provided to the Supervisor for the Board's review and the Board minutes.
- We reviewed the Town's accounting records at the end of the 2011, 2012, 2013 and 2014 fiscal years to compare the estimated revenues and budgeted appropriations to the actual results and the appropriated fund balance calculation.
- We calculated the variances between the actual results and the estimated revenues and budgeted appropriations, and the amount of fund balance that was appropriated but not used to fund the Town's operations.
- We calculated the amount of sales tax that was allocated to the general town-wide, part-town general and part-town highway funds.
- We reviewed the adopted budgets for the 2011, 2012, 2013 and 2014 fiscal years.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX C

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