

# Town of Haverstraw

## Financial Condition

MAY 2019



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

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# Report Highlights

## Town of Haverstraw

### Audit Objective

Determine whether the Board adopted realistic budgets and took appropriate action to address the reasonableness of fund balance.

### Key Findings

- Town budgeting practices resulted in an increase in fund balance from \$8.6 million in 2013 to \$20.9 million 2017. Fund balance is projected to increase to \$22.8 million at the end of 2018.
- The Board appropriated fund balance ranging from \$1.2 million to \$1.4 million that was not used to finance appropriation during the fiscal years 2013 through 2017.
- The Board did not establish a formal fund balance policy.

### Key Recommendations

- Prepare a realistic budget that allows for current revenues to fund current expenditures to avoid excessive budget surpluses.
- Develop a plan to reduce the amounts of fund balance in a manner that benefits Town taxpayers.
- Establish a comprehensive fund balance policy as guideline for the level of fund balance to be maintained.

Town officials agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

The Town of Haverstraw (Town) is located in Rockland County, New York. The Town is governed by an elected Town Board (Board), which is composed of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management of the Town's financial operations.

The Town Supervisor (Supervisor) serves as the chief executive officer and is responsible for day-to-day financial operations and for the development and administration of the budget. The Supervisor appointed a Director of Finance to maintain the accounting records and assist with the financial reporting and filing.

#### Quick Facts

Population	37,617
Employees	211
2017 General Fund Balance	\$20,907,189
2018 General Fund Budget	\$32,521,100
2018 Real Property Tax Levy	\$25,048,100

### Audit Period

January 1, 2013 – November 30, 2018.

# Financial Condition

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## **How Should a Board Effectively Manage Financial Condition?**

A board is responsible for making sound financial decisions that are in the best interests of the town and its taxpayers. This includes accurately estimating revenues and appropriations in the Town's annual budget. A board may also appropriate a portion of unrestricted fund balance as a financing source in the ensuing year's budget to reduce the tax levy. The estimation of fund balance is an integral part of the budget process because the Board is responsible for retaining enough unrestricted fund balance at the end of the year to provide a reasonable financial cushion for unexpected events and cash flow in the ensuing year. However, a board should not exceed a reasonable amount of unrestricted fund balance consistent with prudent budgeting practices to ensure sufficient cash flow. Adopting a fund balance policy that addresses the appropriate levels of fund balance to be maintained from year-to-year provides the board with guidelines during the budget process. If fund balance levels become excessive, funds that could benefit the town are not being used, thereby placing an unnecessary burden on town taxpayers.

## **Budgets Did Not Include Reasonable Estimates of Revenues and Appropriations**

Town officials did not reasonably budget for certain general fund revenues and appropriations. Total revenues were underestimated by an annual average of \$906,000, and expenditures were overestimated by an average of \$1.3 million. We identified 13 appropriations and five budgeted revenues that had significant and consistent variances during fiscal years 2013 through 2017. For example, Town officials overestimated expenditures for serial bond interest, which is a predetermined amount each year, by an average of \$99,554 and salaries in the Supervisor's office by an average of \$36,765 each year. In addition, Town officials underestimated sales tax revenues in the five years reviewed by an average of \$302,684 and franchise fees revenues by an average of \$88,682 each year. Furthermore, our projections indicate total revenues may be underestimated by approximately \$900,000 when appropriated fund balance is removed from budgeted revenue projections and expenditures may be overestimated by \$2.1 million for 2018.

These revenues and expenditures were not reasonably estimated because the Board compared the current adopted budget to the ensuing year's preliminary budget rather than comparing the preliminary budget to the actual result of operations. Furthermore, Town officials did not request budget estimates from Town department heads during the annual budget process to determine reasonable budget amounts. As a result, the general fund experienced operating surpluses during the audit period ranging from \$263,015 in 2013 to more than

\$3.3 million in 2017. In addition, Town officials project the general fund will have an operating surplus of approximately \$1.9 million in 2018.

We reviewed 2019 revenues and appropriations and determined Town officials made budget adjustments for certain revenues and appropriations that were not reasonably estimated during the 2013 through 2017 fiscal years. However, even with these adjustments, eight of the 13 identified appropriations still appear to be overestimated while all five revenues continue to be underestimated.

**Figure 1: Budget Adjustments**

Account Description	2015 Actual	2016 Actual	2017 Actual	2018 Projected	2019 Budget	2019 Budget Adjustment
<b>Expenditures:</b>						
Supervisor Personal Services	\$230,379	\$247,562	\$275,373	\$279,782	\$300,000	\$5,000
Assessor's Contractual Expense	\$53,429	\$34,732	\$52,240	\$36,350	\$80,000	\$0
Attorney Contractual Expenses	\$141,176	\$85,593	\$64,561	\$58,753	\$250,000	\$0
Election Contractual Expense	\$119,000	\$106,856	\$115,000	\$59,102	\$150,000	\$0
Garage Contractual Expense	\$77,367	\$77,213	\$70,786	\$102,283	\$105,000	(\$5,000)
Park Equipment	\$4,900	\$3,300	\$46,886	\$0	\$25,000	\$0
Unemployment Insurance	\$35,439	\$36,271	\$39,576	\$44,372	\$65,000	(\$15,000)
Serial Bonds Interest	\$900,867	\$830,310	\$797,887	\$765,336	\$860,000	(\$50,000)
<b>Revenues:</b>						
Sales Tax	\$1,033,267	\$1,086,046	\$1,137,786	\$1,166,230	\$950,000	\$0
Franchise Fee	\$276,966	\$284,075	\$287,290	\$280,418	\$225,000	\$0
Refuse and Garbage	\$353,724	\$335,451	\$372,318	\$381,188	\$275,000	\$0
Public Safety	\$113,784	\$364,703	\$124,991	\$76,534	\$50,000	\$0
Fines and Forfeited Bail	\$194,853	\$196,129	\$182,183	\$166,039	\$135,000	\$10,000

## The Board Did Not Effectively Manage Fund Balance

The total general fund balance increased from \$8.6 million in 2013 to \$20.9 million in 2017. Town officials project the fund balance will increase to \$22.8 million in 2018.

**Figure 2: General Fund Balance 2013 - 2017**

Description	2013	2014	2015	2016	2017
Beginning Fund Balance	\$8,295,704	\$8,558,719	\$11,029,717	\$14,937,581	\$18,091,390
Prior Period Adjustments	\$0	(\$124,323)	\$417,028	\$900	(\$550,064)
Restated Beginning Fund Balance	\$8,295,704	\$8,434,396	\$11,446,745	\$14,938,481	\$17,541,326
Operating Surplus	\$263,015	\$2,595,321	\$3,490,836	\$3,152,909	\$3,365,864
Ending Fund Balance	\$8,558,719	\$11,029,717	\$14,937,581	\$18,091,390	\$20,907,190
Ensuing Year's Budget Appropriation	\$29,506,100	\$30,336,100	\$30,640,100	\$31,702,600	\$32,521,100
Fund Balance as a Percentage of Ensuing Year's Appropriations	29.01%	36.36%	48.75%	57.07%	64.29%

Town officials unnecessarily appropriated fund balance totaling approximately \$1.2 million each year from 2013 through 2017. This practice continued in the 2018 and 2019 budgets. Furthermore, Town officials increased the real property tax levy in four of the five completed years reviewed while experiencing operating surpluses ranging from \$263,015 to \$3.3 million. Real property taxes were also increased in the 2018 and 2019 budgets.

**Figure 3: Tax Levy Details**

Fiscal Year	Tax Levy	Tax Increase from Prior Year	Tax Increase Percent
2013	\$22,646,100	\$2,560,500	12.75%
2014	\$23,743,100	\$1,097,000	4.84%
2015	\$23,348,100	(\$395,000)	-1.66%
2016	\$23,752,100	\$404,000	1.73%
2017	\$24,429,600	\$677,500	2.85%
2018	\$25,048,100	\$618,500	2.53%
2019	\$25,522,600	\$474,500	1.89%

The increase in fund balance was due to budgeting practices and operating surpluses during fiscal years 2013 through 2017. Town officials consistently underestimated revenues and overestimated expenditures leading to a fund balance that is higher than needed.

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The Supervisor stated that the Board feels it is prudent to gradually build up the general fund balance through budgeting practices. This position on fund balance is due to a tax certiorari settlement with a local corporation in 2007 that totaled \$28 million. The general fund did not have the fund balance to absorb this cost and a bond issuance was required. Town officials stated that they do not want the Town to experience the same situation in the future. While it may be prudent to have a cushion against unforeseen events, continuing to build additional fund balance even after such a cushion has been established puts an undue burden on taxpayers.

As a result of the Town's budgeting practices, the general fund balance has increased significantly and taxpayers may be paying more taxes than necessary.

### **The Board Did Not Establish a Fund Balance Policy**

The Board did not establish a formal fund balance policy to indicate a reasonable level of fund balance to be maintained. In addition, there was no indication that increases in fund balance were due to a specific need or a written plan.

According to the Supervisor, the Board did not establish a fund balance policy because it did not want to be constrained to the limitations of a policy. Town officials did not have guidance to determine a reasonable level of fund balance to maintain. Consequently, the general fund balance increased from \$8.6 million in 2013 to \$20.9 million in 2017. Town officials project the general fund balance to increase by approximately \$1.9 million in 2018.

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

The Board should:

1. Develop a plan to reduce the amounts of fund balance in a manner that benefits taxpayers. Such uses include, but are not limited to:
  - Funding one-time expenditures,
  - Funding needed reserves,
  - Paying off debt, and
  - Reducing Town property taxes.
2. Develop and adopt budgets with realistic estimates of revenues and appropriations based on historical trends or other known factors.
3. Establish a comprehensive fund balance policy as a guideline for the level of fund balance to be maintained.

# Appendix A: Response From Town Officials

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**TOWN OF HAVERSTRAW**  
**HOWARD T. PHILLIPS, JR.**  
Supervisor

ISIDRO CANCEL  
JOHN J. GOULD  
Councilmen

MICHAEL J. GAMBOLI  
Director of Finance

VINCENT J. GAMBOLI  
HECTOR L. SOTO  
Councilmen

WILLIAM M. STEIN  
Town Attorney

May 3, 2019

State of New York  
Office of the State Comptroller  
Newburgh Regional Office  
Attn: [REDACTED]  
33 Airport Center Drive, Suite 103  
New Windsor, New York 12553

Dear [REDACTED]

The Town of Haverstraw is in receipt of the recent draft audit report concerning the Financial Conditions of the Town of Haverstraw dated April 22, 2019. This response will also act as our Corrective Action Plan. We appreciate the time expended to review the Town's records and procedures. The Town has also reviewed your findings and recommendations and has taken a serious look at each.

On the finding of the Town Budgeting Process, the Town of Haverstraw has always taken a conservative approach on the estimation of revenues and expenditures. On certain Revenue line items there is no guarantee on how much revenues the Town will receive each year. Even though we have increased the Budget revenue over the years, the Town is still cautious in not over budgeting revenues so that we do not cause a deficit to future financial conditions if those estimates are not met each year. The same philosophy is used for expenditures. The Town estimates expenditures in a way so that the Town of Haverstraw does not underestimate our expenditures to cause a deficit, which would cost the taxpayer even more money. As our Corrective Action Plan for Budgeting, the Town will continue to cautiously review all Budget line items and will budget appropriately.

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The Town recognizes its positive fund balance and has been using the Town Fund Balance to pay for numerous capital projects within the Town. Such examples are road resurfacing, sidewalks, recreational and other various capital projects. As stated, these projects are being paid out of the Town's Fund Balance and not being bonded to avoid costing the taxpayers more in taxes. We want to avoid bonding capital projects and not kick the can down the road and have the next generation pay for these costs. The Town's Corrective Action Plan for the reduction of Fund balance is to commit approximately 6 Million Dollars of the existing Fund Balance to Town owned Property at the Helen Hayes location. The Town has completed a conceptual design for a recreational facility that would benefit all of the Town of Haverstraw residents. Again without the necessity of bonding the use of these funds will still leave the Town of Haverstraw with a comfortable level of fund balance that should not affect the NYS Comptroller Office Fiscal Stress Test for the Town of Haverstraw.

As far as a Corrective Action Plan for a Fund Balance Policy, the Town of Haverstraw will take the State's recommendation and review different Municipalities Fund Balance Policy and determine what type of policy would be the best fit for the Town of Haverstraw future needs.

We would like to extend our appreciation for the cooperative effort to improve our operations and thank you for the recommendations made.

Sincerely, /

Howard T. Phillips, Jr.  
Town Supervisor

## Appendix B: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and reviewed Board meeting minutes, resolutions, financial documents and Town Code to gain an understanding of the policies and procedures for budgetary and fiscal control.
- We prepared budget-to-actual comparisons for revenues and appropriations for fiscal years 2013 through 2017 to determine if they were reasonable and whether specific revenues and appropriations were consistently and significantly underestimated or overestimated.
- We reviewed adopted general fund budgets for 2018 and actual results for the period January 1, 2018 through November 30, 2018. We projected actual revenues, expenditures and fund balance as of fiscal year-end 2018 using historical data and supporting source documentation.
- We reviewed the Town's operating results and fund balance for 2013 through 2017 and projected the operating results and fund balance for 2018 to determine if fund balance increased or decreased during the period.
- We calculated the percentage of fund balance as ensuing year's budget and compared to the tax levy to determine if Board is effectively managing fund balance.
- We reviewed the real property tax levy for 2013 through 2019 and documented changes.
- We compared 2019 adopted budget to 2018 adopted budget to determine if budget adjustments were made for the significant and consistent variances.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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 Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

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

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

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

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

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

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg)

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

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

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

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

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

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: [localgov@osc.ny.gov](mailto:localgov@osc.ny.gov)

[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

Local Government and School Accountability Help Line: (866) 321-8503

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**NEWBURGH REGIONAL OFFICE** – Tenneh Blamah, Chief Examiner

33 Airport Center Drive, Suite 103 • New Windsor, New York 12553-4725

Tel (845) 567-0858 • Fax (845) 567-0080 • Email: [Muni-Newburgh@osc.ny.gov](mailto:Muni-Newburgh@osc.ny.gov)

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