

Town of Chili

Financial Management and Cash Receipts

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OFFICE OF THE NEW YORK STATE COMPTROLLER
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Report Highlights

Town of Chili

Audit Objectives

To determine whether the Board and Town officials adopted realistic budgets and effectively managed fund balance and reserves.

To determine whether Town departments were properly collecting, depositing and recording cash receipts.

Key Findings

The Board could improve its budgeting and management of fund balance and reserves. The Board:

- Adopted unrealistic budget estimates, which resulted in operating surpluses, unused appropriated fund balances and increasing fund balances in the general and highway funds.
- Did not adopt a multiyear financial and capital plan or detailed reserve plan that included the need and optimal funding level for each reserve.

Town department procedures for cash receipts were deficient because officials lacked adequate documentation for cash receipts collected by certain departments, recorded receipts using deficient software programs and did not always deposit receipts timely, or thoroughly reconcile them.

Key Recommendations

- Adopt budgets with realistic estimates.
- Establish a written policy governing the reasonable amount of fund balance to maintain and adopt a multiyear financial and capital plan including a formal detailed plan for reserves.
- Require department officials to maintain and reconcile adequate departmental receipt records.

Town officials disagreed with certain aspects of our findings and recommendations but indicated they planned to implement some of our recommendations. Appendix B includes our comments on issues raised in the Town's response letter.

Background

The Town of Chili (Town) is located in Monroe County.

The Town is governed by an elected Town Board (Board) composed of the Supervisor and four Board members. The Board is responsible for the general management and control of financial affairs, including establishing financial policies and adopting and monitoring the annual budget. The Supervisor is the chief fiscal officer and budget officer and is generally responsible for the collection and custody of Town funds. The finance director assists the Supervisor with his financial duties including maintaining the accounting records and financial reporting.

Department heads are responsible for overseeing cash receipts. Departments that collect cash include recreation, senior center, Justice Court, finance and Town Clerk/Tax Receiver.

Quick Facts

Population	28,615
2019 Budget	\$15.9 million
2018 Collected Receipts	\$76.6 million

Audit Period

Financial management: January 1, 2016 – July 11, 2019, Cash receipts: January 1, 2018 – July 11, 2019

Financial Management

What Is Effective Financial Management?

The board is responsible for making financial decisions that are in the best interest of the town and its taxpayers. Sound budgeting helps ensure that budgets include realistic estimates for revenues, expenditures and fund balance available for appropriation as a funding source, based on historical or known trends.

By appropriating fund balance in the adopted budget, the board is planning for operating deficits in the amounts appropriated, to decrease surplus fund balance and reduce the real property tax levy. The board may retain a reasonable portion of fund balance for unforeseen circumstances and to provide cash flow to compensate for timing differences between revenues and expenditures.

The board should establish written policies governing unexpended surplus funds¹ that should be maintained. Accurate budgeting and sound fund balance management help ensure that real property taxes are not higher than necessary. Multiyear financial and capital plans for a three to five-year period help the board assess long-term needs and alternative approaches to financial issues, such as accumulating fund balance, obtaining financing or using surplus funds to finance annual operations.

The board can legally reserve portions of fund balance to finance future costs for a variety of purposes such as capital projects or large equipment purchases. The board should adopt a reserve plan that clearly communicates the purpose and intent for establishing each reserve fund, the manner in which the board will fund and maintain each reserve, the optimal or targeted funding levels and the conditions under which reserves will be used or replenished.

These plans and policies are an important planning tool for the board and an effective means of communicating the board's goals and priorities to taxpayers. Board policy requires Town officials to provide the Board with an annual report that includes a summary statement of the projected use of and the need for each reserve fund.

The Board Adopted Unrealistic Budgets

We compared appropriations and estimated revenues other than real property taxes with actual operating results for 2016 through 2018 and found that the Board adopted unrealistic budgets for the general and highway funds. The Board underestimated revenues other than real property taxes by a total of \$5.7 million in the general fund and \$1 million in the highway fund. The revenue budget variances increased each year in both funds.

¹ Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

The Board also overestimated expenditures by a total of \$1.5 million in the general fund, and \$1.7 million in the highway fund. Total budget variances were \$7.2 million in the general fund (Figure 1) and \$2.7 million in the highway fund (Figure 2).

Figure 1: General Fund Budget Variances and Unused Appropriated Fund Balance

	2016	2017	2018	Totals
Estimated Revenues^a	\$3,510,468	\$3,660,123	\$3,932,307	\$11,102,898
Actual Revenues^a	\$4,891,434	\$5,745,672	\$6,197,067	\$16,834,173
Underestimated Revenues	\$1,380,966	\$2,085,549	\$2,264,760	\$5,731,275
Percentage Underestimated	28%	36%	37%	
Budgeted Appropriations^b	\$6,342,598	\$6,353,618	\$6,362,375	\$19,058,591
Actual Expenditures^c	\$5,848,122	\$5,731,982	\$6,023,458	\$17,603,562
Overestimated Appropriations	\$494,476	\$621,636	\$338,917	\$1,455,029
Percentage Overestimated	8%	11%	6%	
Total Budget Variance	\$1,875,442	\$2,707,185	\$2,603,677	\$7,186,304
Operating Surplus^c	\$883,442	\$1,927,185	\$1,986,677	\$4,797,304
Unused Appropriated Fund Balance	\$1,675,000	\$1,500,000	\$1,350,000	\$4,525,000

a We excluded real property taxes (RPT) from our budget-versus-actual revenue analysis because generally all taxes levied are received. For perspective, the tax levy averaged approximately \$1.8 million.

b Excludes appropriations for funding general fund reserves which were improperly budgeted as interfund transfer

c Excludes \$1.5 million unbudgeted transfer to the capital project fund from a capital reserve in 2018

In the general fund, the majority of the revenue variance was for sales tax, which was annually underestimated by an average of \$1 million with a three-year total of more than \$3 million (67 percent). Despite the significant variances each year, the Board adopted budgets with minimal increases to sales tax estimates averaging \$200,000 each year.

Other underestimated revenues included State aid by \$806,730 (52 percent), mortgage tax by \$630,413 (60 percent) and unbudgeted line items totaling \$988,377. For example, the Board did not budget for self-insurance recoveries for workers' compensation (\$620,514) and the sale of equipment (\$45,000). Since 2013, when the Town first reported self-insurance revenue, the Town received annual revenues averaging \$181,963 and ranging from \$44,399 to \$370,510.

Expenditure variances were generally spread throughout the budget line items, but included overestimated contractual expenditures for buildings (18 percent), central garage (28 percent), youth programs (24 percent) and drainage (30 percent) each year.

Figure 2: Highway Fund Budget Variances and Unused Appropriated Fund Balance

	2016	2017	2018	Totals
Estimated Revenues^a	\$636,500	\$636,500	\$633,500	\$1,906,500
Actual Revenues^a	\$825,482	\$904,125	\$1,181,670	\$2,911,277
Underestimated Revenues	\$188,982	\$267,625	\$548,170	\$1,004,777
Percentage Underestimated	23%	30%	46%	
Appropriations	\$4,488,026	\$4,693,417	\$4,753,063	\$13,934,506
Actual Expenditures	\$4,076,141	\$4,181,001	\$3,947,306	\$12,204,448
Overestimated Appropriations	\$411,885	\$512,416	\$805,757	\$1,730,058
Percentage Overestimated	10%	12%	20%	
Total Budget Variance	\$600,867	\$780,041	\$1,353,927	\$2,734,835
Operating Surplus (Deficit)^a	(\$54,133)	(\$19,959)	\$653,927	\$579,835
Appropriated Fund Balance	\$655,000	\$800,000	\$700,000	\$2,155,000
Unused Appropriated Fund Balance	\$600,867	\$780,041	\$700,000	\$2,080,908

a We excluded real property taxes (RPT) from our budget-versus-actual revenue analysis because generally all taxes levied are received. For perspective, the tax levy averaged approximately \$3.3 million.

In the highway fund, the most significant revenue variances were for State aid, underestimated by \$404,430 (96 percent), and unbudgeted equipment sales of \$208,996. Significant expenditure variances were for snow removal (\$1 million, 35 percent), employee health insurance (\$343,511, 20 percent) and services to other governments (\$161,996, 16 percent).

Because the Board included unrealistic estimates in its budget, the Town generated general fund operating surpluses each year, ranging from \$884,000 to \$2 million. In the highway fund, budget variances resulted in small operating deficits, totaling \$74,092, that were far less than the amounts planned in 2016 and 2017 and an operating surplus of \$653,927 in 2018.

By underestimating revenues and overestimating expenditures, the Board gave taxpayers the impression that it needed to both increase its tax levy in certain years² and use fund balance to close projected budget gaps. However, the unrealistic estimates actually created annual operating surpluses, or deficits less than the amounts planned, resulting in the accumulation of significant fund balance.

Due to the Board's budgeting practices, the Town did not use any of the \$4.5 million fund balance appropriated in the general fund and \$2 million of the \$2.2

² The general fund tax levy increased in 2016 and 2017 for a three-year net increase of \$146,302 (9 percent). The highway fund tax levy increased in 2017 and 2018, for a three-year net increase of \$192,123 (6 percent).

million (97 percent) appropriated in the highway fund. The Board may be placing a higher burden on taxpayers than necessary to provide services. Budgeting extra amounts in various line items to accumulate funds was not transparent to taxpayers because the Board did not clearly state why the surpluses were needed.

Town officials told us that they budgeted conservatively for sales tax and mortgage tax revenues due to their volatility. The finance director told us that some of the budget decisions may have been driven by the desire to accumulate money for the anticipated community center project.³ However, the Board did not develop or adopt a long-term plan to support maintaining such significant fund balance levels or explain how the funds would be used if it did not move forward with the project.⁴

Based on our analysis of the 2019 adopted budget, officials budgeted similarly to previous years. We reviewed the operating results through July 2019, and found that general fund revenues were already 75 percent of estimated revenues, and expenditures to date were 59 percent of appropriations. Highway fund revenues were 102 percent and expenditures were 58 percent of budgeted amounts. Therefore, it is likely that both the general and highway funds will end 2019 with operating surpluses, unused appropriated fund balance and increased fund balance.

The Board Did Not Maintain a Reasonable Level of Fund Balance

Fund balance increased to unreasonably high levels in both the general and highway funds from 2016 through 2018 because the Board adopted budgets that included unrealistic estimates for revenues, expenditures and appropriated fund balance and did not establish a written policy governing the reasonable level of fund balance to be maintained.

3 The Board approved a \$20 million capital project in April 2018 and the voters approved bond financing for the project in June 2018.

4 Except for documents on the Town website showing financing options with the potential use of reserves for the community center capital project

Figure 3: General and Highway Fund Balance

	General Fund			Highway Fund		
	2016	2017	2018	2016	2017	2018
Ending Fund Balance	\$11,179,008	\$13,106,193	\$13,586,870	\$2,533,807	\$2,513,848	\$3,167,775
Less: Restricted	\$5,284,631	\$6,228,189	\$5,804,551	\$307,587	\$415,361	\$447,804
Less: Nonspendable	\$73,799	\$78,488	\$78,553	\$56,206	\$56,008	\$57,703
Less: Encumbrances	\$5,580	\$6,975	\$67,838	\$112,000	\$0	\$272,497
Less: Appropriated Fund Balance	\$1,500,000	\$1,350,000	\$1,300,000	\$800,000	\$700,000	\$750,000
Surplus Fund Balance	\$4,314,998	\$5,442,541	\$6,335,928	\$1,258,014	\$1,342,479	\$1,639,771
Percentage of Next Year's Appropriations	68%	86%	89%	27%	28%	34%

In 2017, officials reported \$3 million as assigned fund balance in anticipation of future costs surrounding the possible construction of a new community center. However, at that time, it was uncertain whether the project would be approved, though if it was declined they anticipated other repair-type expenditures to the buildings.

Town officials chose not to reserve these funds to have more flexibility to use them for any purpose if the community center project was not approved. None of these funds were used in 2018. Instead, the Town increased the assigned fund balance to approximately \$3.8 million, which was intended to be used toward the construction of the new community center (approved June 2018) and for site and infrastructure improvements in the surrounding area.⁵

Because the funds are not legally restricted and may be reassigned by Board action, they remain part of surplus fund balance in the general fund, which totaled \$6.3 million at the end of 2018, or 89 percent of 2019 appropriations. In June 2019, Town officials transferred the \$3.8 million to the capital project fund to use toward the community center project. The Finance Director told us that these funds will be expended and not returned to the general fund, reducing fund balance.

Adopting budgets with overly conservative estimates each year, while also appropriating fund balance that will not be used, is misleading to taxpayers and will continue to generate additional surplus fund balance. Essentially, the unused appropriated fund balance represents available fund balance, increasing total unrestricted fund balance to 107 percent of 2019 appropriations as of December 31, 2018.

⁵ As shown in the 2018 audited financial statements

Surplus fund balance in the highway fund totaled \$1.6 million, or 34 percent of 2019 appropriations, as of December 31, 2018. Given the lack of a fund balance policy establishing and justifying a reasonable level to be maintained, it is unclear why this level of fund balance is necessary.

It is neither prudent nor equitable to maintain excessive fund balance levels, as funds that could benefit the Town are not being used, thereby placing an unnecessary burden on current taxpayers.

The Board Did Not Adopt a Multiyear Financial and Capital Plan

The Board did not adopt a comprehensive written multiyear financial and capital plan. In the absence of such a plan incorporating the use and funding of reserves, the Board received some information on reserves in the Town's audited financial statements each year. However, the information provided did not include all the information required by the Board-adopted policy for an annual summary statement on reserve funds. Most significantly, officials did not provide the Board with a detailed reserve plan that included the projected use and need for each reserve or the desired funding levels and the justification for maintaining each reserve balance.

The Town reported 16 reserves⁶ totaling \$6.3 million at the end of 2018. While the capital reserve balances generally appeared reasonable, we question whether balances, as of December 31, 2018, in the workers' compensation, insurance and assessment reserves, which totaled \$2.15 million,⁷ were reasonable due to the lack of a detailed reserve plan documenting the need and justification for the balances.

The lack of a comprehensive long-term plan, including a plan for the funding and use of reserves, inhibits the Board's ability to effectively manage finances and address needs without overburdening taxpayers. Without a well-designed written financial and capital plan to assist the Board in making timely and informed decisions about programs and operations, it is less able to provide transparency to taxpayers and effectively manage fund balance in their best interest.

What Do We Recommend?

The Board should:

1. Develop and adopt budgets that include realistic estimates for revenues and expenditures, and which appropriate a reasonable and necessary amount of fund balance.

⁶ There were 13 general fund reserves (10 capital reserves, workers' compensation, retirement contribution and insurance reserves), two highway fund capital reserves and one water fund reserve for debt.

⁷ Workers' compensation (\$1,286,959), insurance (\$528,156) and assessment (\$336,267)

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2. Adopt a policy governing the amount of surplus fund balance that should be reasonably maintained in each operating fund.
 3. Use surplus funds as a financing source for:
 - Funding one-time expenditures;
 - Funding needed reserves;
 - Paying off debt; and
 - Reducing property taxes.
 4. Develop and adopt a comprehensive multiyear financial and capital plan.
 5. Require Town officials to comply with its policy's annual reporting requirements and clearly communicate to taxpayers the projected use and need, optimal or targeted funding levels and conditions under which each reserve fund will be used or replenished.

Cash Receipts

Town departments use various software to record cash receipts and issue permits. The Town Clerk's office receives payments for marriage, dog, hunting and fishing licenses, building permits and real property taxes for the Town and school districts, as Receiver of Taxes. Justices are responsible for adjudicating cases brought before them and accurately accounting for and reporting Court-related financial activities and collecting and recording cash receipts in the Justice Court software.

After the end of each month, the Town Clerk (Clerk) and the Justices turn over their receipts to the Supervisor. The Clerk also remits school taxes to the districts. The senior center and recreation department make deposits directly in a finance department bank account. The finance department also receives and records general receipts, such as State aid.

How Should Officials Properly Collect, Deposit and Record Cash Receipts?

To adequately safeguard cash collections, a board should adopt a town-wide cash receipts policy that establishes a clear and consistent process that requires all departmental collections be adequately documented and deposited timely and intact.⁸ This process should require employees collecting cash to issue receipts that adequately document the source, date, amount, form (i.e., cash or check) and purpose of the collections. Reconciliation of recorded receipts to detailed activity records (program registrations or issued permits) can aid officials in identifying recordkeeping errors, incorrect fees charged or patterns indicative of fraud.

Receipts produced from accounting software should be issued in consecutive numerical order and documentation should be retained as evidence of collection. If software-generated receipt numbers can be altered, the departments should use and retain copies of pre-numbered manual receipts. The receipt sequence should be periodically reviewed and any missing or duplicate receipt numbers investigated.

It is essential to ensure that software controls are in place so that deletions and adjustments cannot be made without authorization and that there is a process in place to review data entered into and changed in the system. The software should provide a means of determining the identity of individuals who access the software and their activity.

By law town officials are required to deposit collections into the town's bank accounts within a set number of days, which varies for different officials, and

⁸ In the same amount and form as received

sound business practices call for collections to be deposited as soon as possible after receipt to minimize the risk of theft or loss.

The Board Did Not Implement a Town-Wide Cash Receipts Policy

The Board did not adopt a town-wide cash receipts policy to guide departments that collect cash, and did not ensure that the departments implemented effective and sufficient policies and procedures over cash collections. As a result, Town officials could not ensure that departments adequately fulfilled their duties and safeguarded cash receipts.

Without effective and consistent Board guidance, each department established its own procedures, which were not all clearly documented, consistent or effective. As a result, we identified multiple deficiencies in internal controls over and documentation of the cash receipts processes in the various departments.

Certain Department Software Lacked Necessary Controls

Software used by the departments to record receipts and issue permits did not have the controls necessary to maintain data integrity. The IT Director developed the three software applications used to record building and fire permits and senior center receipts to maintain a database to track the related activity. These software applications did not require user identification and allowed changes and deletions to the data, such as permit numbers or receipt transactions. As a result, permits could be issued out of sequential order, duplicate permit numbers could be issued, and staff could issue free permits or collect fees for unrecorded permits or receipts.

Building Department Software – We reviewed the building and fire permits issued by the building department in 2018 and did not identify any missing or duplicate building permit numbers. However, we did identify seven missing fire permit numbers. The fire marshal told us that these were likely voided transactions. In addition, the building department was unable to provide sufficiently detailed reports of zoning and plumbing permits for the year. We reviewed the permit numbers paid for in the Clerk’s office for two test months and were able to determine that all zoning and plumbing permit numbers in the sequence were accounted for. However, we were unable to determine whether the building department issued them in sequence.

Justice Court Software – The Justice Court software allows date and receipt number changes, voided transactions, deletions or adjustments to payment transactions without approval.⁹ This control weakness could allow the Justices or any Court employee to conceal a theft by issuing a receipt to a customer for the

⁹ A more secure version of the Justice Court software is available.

amount received and then deleting that receipt. We reviewed receipt sequences for two sample months and found that receipts were sequentially issued for both Justices and, other than two voided transactions for which the clerks provided adequate documentation, all receipt numbers in the sequence were used.¹⁰

Recreation Department Software – The recreation department software allows users to override the cost of registrations to as low as zero, and issue credits or refunds. The recreation director told us that they offer the option of either a refund, which is processed through the Town’s regular disbursement process or a credit issued by recreation staff to the registrant’s account.

However, there are no approvals required of recorded changes before they are posted or finalized. After changes are posted, a request needs to be made to the software vendor to make any changes, which can be done by any recreation staff member. Although the recreation director told us that he instructed staff to limit who performs certain types of transactions, users retained this access in the software because the software options did not give him the ability to limit access to only those functions needed to perform their job duties. Further, the software automatically assigns non-sequential transaction identification numbers to every receipt entered which complicates any review to try to identify missing receipts.

Finance Office Software – The financial software allows the entry of transaction dates that differ from the date the information was entered, and the finance director, as software administrator, has the ability to adjust the automatic receipt numbering sequence.

Town Clerk Software - The Clerk’s software allows for date changes. This ability was commonly used by the Clerk’s office to reprint marriage certificates that were issued before the Clerk began using this particular software because they need to enter the prior date of the certification. However, the monthly report for the month when the transaction occurred did not show any pre-dated transactions. In addition, the Clerk’s office did not generate or review reports with receipt numbers listed to ensure that all receipt numbers were accounted for. Therefore, the Clerk was unable to explain the reasons for missing receipt numbers that we found during the two months tested.¹¹ We determined that these were re-issued receipts.

An effective monitoring tool is the regular review of user access and activities logged within the software. However, a log was not available in the building department or senior center software or the version of the software used by the Justice Court. Additionally, logs or reports of changes were not reviewed in the Clerk’s office or recreation or finance departments.

¹⁰ Refer to Appendix C for information on our sampling methodology.

¹¹ Ibid.

We found that all recorded receipts for the months reviewed were deposited for each department.¹² However, given the lack of application controls, officials have no assurance that all receipts were recorded. Altering, adding or deleting receipts or permits increases the risk that funds could be received but not deposited or reported. Further, the lack of accountability may make it difficult to identify the employee making changes or deletions in the software.

Adequate Activity Reconciliations Were Not Performed

Thorough reconciliations were not performed for senior center and recreation program activity or between the Clerk's office and building department for permits. Given the significant software control deficiencies, these reconciliations would help to identify any potential problems.

Senior Center – The senior center provided a variety of activities for seniors, including events at which they sold concession items. Some activities were free, some had suggested donations and some required a participation fee. Seniors turned in completed event registration forms with their money to senior center staff. Senior center staff recorded receipts in the center's software. A roster was generated from the software and used as a sign-in sheet for events. However, the senior center staff did not prepare documented reconciliations or comparisons of rosters/sign-in sheets and registration forms to receipts recorded in the software and deposited.

The senior center director told us that reconciliations were performed before and after events, but were not documented. In addition, the process the senior center director described for the after-event reconciliation would not be sufficient because it was performed by the employee who recorded receipts and prepared the deposits. Further, the senior center director told us that the before-event reconciliations sometimes did not balance, which may have occurred due to a fee being waived but not documented.

Because there were no documented reconciliations for the senior center, we compared the rosters, registration forms and recorded receipts for three months during our audit period. We found that recorded receipts were generally reasonable based on the available documentation.¹³

For our test months, some events had calculated receipt totals that agreed with the rosters and registrations. However, for certain events, the receipt totals were more than amounts calculated from both rosters and registrations. In addition, for certain other events, only two of the three records agreed, or all three records had different totals.

¹² Ibid.

¹³ Refer to "Senior Center Receipts Documentation Was Insufficient."

Recreation Department – The recreation department received payments for recreation program registrations and lodge rentals from residents and non-residents. The department used an online registration system that provided participants the option to register themselves and pay online by credit card. Department staff recorded and collected any registrations received in the mail or in-person.

Reconciliations were not performed between the amounts collected and the number of program participants. The recreation director told us that there was no review performed to ensure that participants were charged the correct fees because the software calculated this amount for those registering themselves and only office staff could override the amount due. Performing a reconciliation would help to ensure that fees were correctly entered into the software and would help deter staff from registering participants at reduced rates and pocketing the difference from the charged fee.

For 10 recreation programs, we compared the recorded receipts totaling \$77,585 to our calculation of what receipts should have been based on number of participants on the rosters.¹⁴ We found that recorded receipts were generally reasonable to, or more than our calculated receipt totals for roster participants. These differences occurred mainly because prorated fees, subsequent transactions for partial payments and refunds were not included on the rosters and credits were not included on the receipt reports.

We compared the fees established as advertised in the Town's newsletter¹⁵ for these 10 programs and the programs with receipts in March 2018 to the amounts charged participants to determine whether the correct fees were charged. Except for minor discrepancies, which we discussed with the recreation director, we found that appropriate fees were generally charged for these programs. However, the department did not have a policy or procedures for practices such as prorating or reducing fees or how refunds and credits should be documented and processed.

Building Department – The building department received applications for building permits, fire permits and other planning and zoning applications. Once the applications were approved, the permits were printed from the applicable software. Generally, after the printed permit was signed, the applicant was telephoned to pick the permit up from and remit permit fees to the Clerk's office. However, applicants were sometimes given their documents in the building department and instructed to take them to the Clerk's office for payment.

¹⁴ Refer to Appendix C for information on our sampling methodology.

¹⁵ Not all program fees were listed in the newsletter.

Town officials did not prepare reconciliations between the number of permits – and related assessed fees - issued by the building department and the fees collected in the Clerk’s office. The fire marshal provided the Clerk with a log of the outstanding fire permits issued, Clerk’s office staff marked permits as paid on the log when payments were received and the fire marshal regularly reviewed the log and marked the permits paid in the software. However, he did not reconcile the amounts charged for fire permits with the amounts collected. Officials did not reconcile the fees charged for any other types of permits issued to the amount of fees collected.

We reconciled building and fire permits issued for 2018 with collections recorded by the Clerk’s office. After accounting for permits issued but not yet picked up, and prior year issued permits paid for in 2018, we found that collections totaled \$872 more than the fees charged for permits issued that year. Because the Clerk office staff enter the permit numbers in the description line of their receipts, errors or missed permit numbers could occur, which may account for the difference. Although collections were more than permit data provided in this case, this further demonstrates the need for officials to reconcile the amount collected with the fees charged for permits issued.

Some Receipts Were Not Deposited in a Timely Manner

Town employees did not deposit all receipts for the senior center and recreation department in a timely manner.¹⁶ The senior center director told us that they hold receipts with the registration forms and do not record them in the software or deposit them until a few days before the event to provide an easier refund process if there is a cancellation. Based on the receipt dates recorded on the event registration forms reviewed for the month of August 2018, receipts were recorded in the software up to 49 days after receipt. Deposits were generally made within a day of recording the receipts in the software.

The majority of recreation department receipts were deposited in a timely manner, due in part to the majority being paid by credit card through an online registration process or the recreation department office. However, we found receipts totaling \$5,689 (5 percent of recreation receipts tested¹⁷) that were deposited more than 10 days after receipt. The recreation director told us that he holds receipts until he has a group of them before going to the bank. For example, we found that all of the July non-credit card receipts were deposited at the end of that month.

¹⁶ Town Law, Section 29 requires the Supervisor to deposit all money within 10 days after receipt. Recreation and senior center receipts fall under the Supervisor’s responsibility and are deposited directly into related bank accounts.

¹⁷ Refer to Appendix C for information on our sampling methodology.

The longer money remains undeposited, the greater the risk that loss or theft could occur without detection.

Senior Center Receipts Documentation Was Insufficient

Senior center staff did not maintain sufficient documentation to ensure all event participants were correctly charged and all receipts were recorded and deposited. For example:

- Staff did not issue electronic or pre-numbered receipts for cash collections.
- Staff did not maintain sufficient documentation for refunds. Staff issued refunds for certain program events when an event was canceled, or had a waiting list with a limited number of participants. Although the senior center director told us that staff have the seniors sign the initial registration form to show their money was returned, there was not a specific place on the form for this. Therefore, it was unclear whether refunds were issued based on forms that had a signature in a blank or random place and forms did not always show that a refund was issued or the refund date.
- For the lunch club events,¹⁸ staff maintained a summary sheet that had the total collected each day along with the signatures of two staff members who verified the amount collected. However, this sheet was unavailable for one of the three months we reviewed. Further, for one month, some amounts had been overwritten with new amounts, but there were no initials from either signer, or explanations for these changes. Therefore, it is unclear whether the totals were adjusted before or after the staff members signed the form verifying the total amount collected.
- Event attendance records were inaccurate. For each event, these generally included a roster/sign-in sheet and event registration forms. However, these records did not always provide sufficient detail and were not entirely accurate to enable comparison with the recorded receipts. For example, the senior center director told us that while staff requested that all attendees signed in for each event, some seniors did not do so and therefore not all attendees were listed on the sign-in sheet.

Additionally, the senior center director told us that she may on occasion have waived a fee, so not all participants who signed-in would have paid. Further, event drivers¹⁹ and senior center volunteers were listed on the sign-in sheets, but were not always shown as such non-paying participants. Therefore, it was not clear how many seniors should have paid for the event. Because the

¹⁸ This is a suggested donation event that occurs twice every week, sponsored and subsidized by Monroe County.

¹⁹ The senior center has a van to transport seniors for certain programs.

rosters/sign-in sheets (including van transportation) for suggested donation programs did not show who paid and how much was paid and staff did not maintain event registration forms, we were unable to determine the total receipts collected to compare with the summary of collection sheet for these events.

Staff implemented their own procedures because the Board did not adopt an overall policy for departments handling cash receipts. Further, the department's practices varied from the Supervisor's expectations. The Supervisor told us that there should be no waived fees and he would expect all participants to pay for an event with a required fee, with limited exceptions for those working the events.

We compared the rosters/sign-in sheets, registration forms and recorded receipts for three months of our audit period.²⁰ Generally, we found that recorded receipts were reasonable to, or more than amounts shown in the supporting documentation. Additionally, based on the registration forms, participants were charged the appropriate fees for the majority of program events. However, staff did not maintain sufficient documentation to ensure that all participants were correctly charged.

All recorded receipts for the three months reviewed totaling \$11,620 were deposited and included on monthly reports. However, due to insufficient documentation there was no way for officials to be certain that all receipts were recorded.

What Do We Recommend?

The Board should:

6. Adopt a cash receipts policy to ensure adequate controls are in place and documentation is consistently maintained to support receipts by all departments.
7. Ensure that department heads have implemented adequate written procedures for cash receipt operations to adequately segregate and document duties and comply with its policies.
8. Consider upgrading department software or implement compensating controls for software deficiencies such as issuing pre-numbered duplicate receipts or permits, reviewing receipt sequence, and requiring staff to maintain manual logs documenting reasons for all changes and deletions within the software.

²⁰ Refer to Appendix C for information on our sampling methodology.

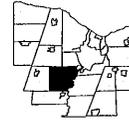
-
9. Ensure that adequate reconciliations are performed and documented for recreation department and senior center activity and between building department-issued permits/applications and related Clerk receipts.
 10. Require department officials to deposit receipts in a timely manner.
 11. Ensure that all departments maintain adequate documentation to support collections.

Appendix A: Response From Town Officials



TOWN OF CHILI

STATE OF NEW YORK * COUNTY OF MONROE
ESTABLISHED IN 1822



David J Dunning
Supervisor

Virginia L. Ignatowski
Town Clerk

Jordon I. Brown
Mark L. DeCory
Michael S. Slattery
Mary C. Sperr
Town Council Members

Office of The State Comptroller
Local Government & School of Accountability
16 West Main Street, Suite 522
Rochester, NY 14614

November 25, 2019

RE: Town of Chili Response to New York State Comptroller Draft Report of Examination 2019M-167

To whom it concerns;

First and foremost it is important to recognize the manner in which the audit team performed their duties during the lengthy, six-month audit period. The audit team was respectful and cooperative with our employees during their time here. They performed their duties with a minimal amount of disruption to our daily business. We want to thank the audit team for their efforts.

Secondly, the period used for this audit happens to be one of the most robust economic periods in recent history. While the Audit focuses on a brief period in time, 3 years, the Town uses more reliable historical data to make financial decisions. Our 10 year look back and 10 year look ahead provides a more reliable approach to maintaining financial stability.

See
Note 1
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The Town feels this report to be absent of acute facts and is critical of practices which the Comptroller offers no guidance on proper practice. The Town offers up this response to the State's Key Recommendations.

- **Adopt budgets with realistic estimates**

In February of this year, Comptroller DiNapoli released his analysis of the revised executive budget for New York State. DiNapoli stated *"As lawmakers craft next year's budget, they are negotiating under the threat of slower economic growth, volatile financial markets and continuing revenue uncertainty. Decisions on the new budget demand an exceptionally high degree of caution, and I encourage the Governor and Legislature to bolster the state's rainy day funds to better prepare for future fiscal challenges."*

The Town could not agree more with the Comptroller's own words, and approach every budget with this mentality. The Town's conservative approach to budgeting and spending has allowed it to maintain the services its residents need and expect, and maintain a tax rate it feels is fair and stable. Some revenue sources such as sales and mortgage tax are extremely volatile and unpredictable, but the Town continuously reviews and makes adjustments as necessary. Any increases to fund balances are used towards future considerations and balancing the annual budget. They also are used to offset ongoing rising costs of certain necessary and contractual expenses, such as employee salaries and benefits, equipment, road salt and asphalt. Moreover, the Town contends with State actions and economic environments that are out of the Town's control, but have a direct effect on the Town, and threaten the Town's revenue and expense streams.

See
Note 2
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3333 Chili Avenue, Rochester, NY 14624
(585) 889-3550 fax: (585) 889-8710
<http://www.townofchili.org>

While the report claims the Board should be “making financial decisions that are in the best interest of the town and its taxpayers”, nowhere in this report does it reference even one Chili taxpayer having been interviewed to understand their interests and needs. The State also says that due to the Town’s budgeting practices, “the Board *may* be placing a higher burden on taxpayers than necessary to provide services.” The Town takes exception with these types of misleading statements. Throughout the budgeting process, the Town looks at long historical trends of the Town, as well as future expectations, not just limited three-year periods. Given historical trends, the Town goes into each budget knowing that some figures will be off, but we realize that budgeting is an estimation of the coming year. Even though the Town does not subject itself to the State’s cookie-cutter, one-size fits all methodologies, the State cannot and should not imply that the Town is overburdening its taxpayers. In fact, prior to the 2020 budget, the Town has been under the State mandated tax cap, which for the three years audited was 0.73%, 0.68% and 1.84%. Every cent levied from our residents goes back to providing them with the services they need and want.

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Note 3
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See
Note 1
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The State’s report cites budget variations and insinuates the Town’s inability to budget properly in an attempt to paint a certain picture, but conveniently leaves out significant details such as budget adjustments, grants, one-time revenues and Interfund transfers, totaling millions of dollars. Sales tax revenues have more than doubled over the past nine years. It must be noted that revenues from sales tax are not guaranteed. Monroe County chooses to share sales tax with its municipalities, and can eliminate or change that benefit at any time. The Governor’s recent budget changing the sourcing of the Town’s AIM funding to now come from county sales tax may have a significant impact on the Town’s future earnings. However, the Town has taken steps to close the gap between actual and budget. Over the course of the audited period, sales tax revenues are up 26%, but the Town has increased this budget line item by 52%. Mortgage tax is dependent upon general economic factors such as the housing market and interest rates, none of which the Town can control. Half of the budget variance for this revenue stream came in 2017, when there was a 55% year over year increase. Evidence of the volatility is demonstrated in the fact that 2016 and 2018 each saw decreases of 11%. The Town proposes that no one can predict that type of volatility. The report’s variances for State aid in a total amount of \$1.2M ignore over \$500K in budget adjustments, as well as numerous one-time grants the Town residents benefited from.

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Note 4
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See
Note 2
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The Comptroller’s 2018 Annual Report on Local Governments states that “*spending patterns indicate that many local governments may have been deferring maintenance on equipment and capital, in which case they may be facing rising expenses in the coming years. This is especially problematic given the repair, replacement and upgrade needs of New York’s aging infrastructure.*” “*On the revenue side, the property tax cap will continue to constrain the ability of local governments to increase tax levies.*” “*Local governments should continue to budget conservatively and seek innovative solutions that contain costs while enabling them to provide needed services.*” The Town once again whole heartedly agrees with the Comptroller’s philosophy here, and budgets appropriations with a long-term view of our residents’ needs. This Annual Report referenced that there is a ten-year state wide average expenditures growth of 2% per year. In spite of rising costs, the Town manages to find ways to find reductions, as is evident by the fact that the 2018 general fund appropriations (only \$20K higher than 2016) reflect a 7% *decrease* from 2015. The audited report fails to site significant personnel changes and encumbrances that lead to most of the variances. In addition, the Town pays cash for vehicles and equipment, working from a replacement schedule, avoiding all debt for these types of large purchases and reducing long-term maintenance costs.

- **Establish a written policy governing the reasonable amount of fund balance to maintain and adopt a multiyear financial and capital plan including a formal detailed plan for reserves**

The State’s report states “*it is neither prudent nor equitable to maintain excessive fund balance levels, as funds that could benefit the Town are not being used, thereby placing an unnecessary burden on current taxpayers.*” The Town finds this statement to be irresponsible and unjust. When the Town asks the Comptroller’s Office what an “appropriate” fund balance would be, they answer that they don’t know, they have no recommendation, it’s up to the Town to determine. The Town finds it irresponsibly critical of a practice when it cannot offer a suggested practice. Their statements also imply that the Board lacks any oversight or foresight as to the funding of surpluses and reserves. Although the Town currently does not maintain a single capital plan neatly put into the Comptroller’s canned format, all

See
Note 5
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funding decisions are made with the long-term best interests of the residents in mind. Over the past many years, with significant input from the residents of Chili, the Town has prepared a Comprehensive Master Plan, Chili Center Master Plan, Parks and Recreation Master Plan, Sidewalk and Pedestrian Study, Black Creek Trail Study, and Agriculture and Farmland Protection Plan. Ironically, some of these plans were paid for by State grants, which would now be viewed as the Town underestimating its revenues. Every reserve that the Town maintains was set up by resolution for specific purposes, and every decision that the Board makes to fund these reserves is made with those purposes in mind, and looking at the desires of the residents through the plans we have done together. The Town will fund these future projects with little to no additional burden to the taxpayers.

See
Note 6
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A major piece of the Town's general fund balance has been earmarked for the current Community Center and infrastructure project. This project, which was called for by several of the before mentioned Town Plans, was referenced many times in public records, including communications leading up to the successful referendum as well as the past several Annual Financial Statements. The State's report references approximately \$3.8M from the Town's 2018 Statements. This money was transferred in 2019, as documented and intended. When accounting for this timing issue, the 2018 fund balance is \$459K lower than the 2015 fund balance. The Town has been optimistically approaching this project with long-term interests of the taxpayers in mind. As of the date of this report, the Town has transferred over \$6M in reserves and surpluses towards this overall project. Another \$1.1M has been allocated in the 2020 approved budget. The Town will continue to evaluate over the life of this project if any additional surplus funds can be allocated to this massive undertaking. As part of this process, Moody's recently issued a credit overview for the Town stating *"the credit position for Chili is very strong, and its Aa2 rating is slightly above the median rating of Aa3 for US cities. Their key credit factors include a robust financial position, exceptionally light debt burden and healthy fund balances."* *"The financial position of the town is very healthy and is relatively favorable when compared to the assigned rating of Aa2."* The Town's actions, both those that it has taken already as well as those it intends to take over the next few years, although perhaps not in alignment with this audit's short-sighted view, will have direct, impactful, positive consequences for Chili's taxpayers for years to come in the form of future lower expenditures and debt service.

See
Note 7
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- **Require department officials to maintain and reconcile adequate departmental receipt records**

The Town was pleased to repeatedly see throughout the State's report on cash receipts that there was no evidence of fraud, no misappropriations, no substantial abuse of cash receipts, and revenues were always found to be "reasonable" and without material misstatement. The Town feels that although it has not emulated the State's uniform ideologies, it does feel the processes and procedures it does have in place have made a difference, as is evident by the positive results just mentioned. Some of the concerns raised in the report are due to instances the Town is limited by the capabilities of the products available for municipal use. Other concerns the Town feels were misguided, and some showed a lack of true understanding on the State's behalf of how we operate. In regards to the many words written about the Senior Center, the Town feels it imperative to provide these types of programs to this focal group of citizens, and will not apologize because the State found evidence that sign-in sheets may not have always been 100% accurate, or because there may have been instances we didn't turn our senior residents away due to their inability to pay nominal fees. However, The Town does agree that there are opportunities to improve in some areas, and has already made efforts towards addressing these concerns from the report. Town-wide and departmental policies and procedures are being reviewed, and updates that help reduce the risk of fraud and improves its detection, but limits prohibitive and unnecessary burden and expense on the Town, will be made.

See
Note 8
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Respectfully

David Dunning
Supervisor, Town of Chili

Appendix B: OSC Comments on the Town's Response

Note 1

Town officials did not provide or discuss 10-year analyses during our audit when we requested long-term plans to document and support the Board's budgetary decisions. In an additional effort to review the Town's planning documents, we visited Town officials on December 11, 2019 and requested a copy of the analyses cited in the response. The Supervisor told us he did not have a plan or analysis, but could put something together if we gave him some time. This statement contradicts the Supervisor's assertion in the response.

Note 2

Over the past 10 years (2009-2018) sales tax revenue increased annually, from \$1.3 million to \$2.7 million, and averaged over \$2 million. The Board-adopted budgets for 2016 through 2018 underestimated sales tax revenue by \$1 million each year. Mortgage tax revenue received during the last 10 years totaled more than \$400,000 each year and averaged \$525,868, while the Board-adopted budgets in 2016 through 2019 included estimated revenue of only \$350,000 each year.

Note 3

While it is prudent to maintain adequate fund balance or to budget conservatively to protect against unforeseen circumstances, doing both may result in taxes that are higher than necessary. As stated in our report, the lack of a comprehensive written multiyear financial and capital plan, including a plan for the funding and use of reserves, inhibited the Board's ability to effectively manage finances and address needs without overburdening taxpayers and transparently communicate its plans to taxpayers.

Note 4

While the amount of sales tax revenue received by the Town will vary each year, how it is distributed by Monroe County is governed by State statute. Contrary to the Supervisor's assertion in the response letter, the County cannot unilaterally decide to change or eliminate its sales tax distributions to the Town.

Note 5

The Board is allowed by law to maintain a reasonable amount of fund balance. The Board should establish written policies governing unexpended surplus funds to fit and guide the Town's needs, and establish and document fund balance goals for its taxpayers.

Note 6

While useful for their specific purposes, the plans cited do not constitute a comprehensive multiyear financial and capital plan that we recommended to guide long-term budgeting decisions.²¹

Note 7

Bond rating agencies analyze the risk to investors of the Town's indebtedness. Our financial management audit objective was to determine whether the Board and Town officials adopted realistic budgets and effectively managed fund balance and reserves.

Note 8

We did not recommend limiting the programs provided to seniors. Our recommendation is to adopt a cash receipts policy to ensure adequate controls are in place and documentation is consistently maintained to support receipts by all departments, including the senior center.

²¹ Refer to our publications *Multiyear Financial Planning and Multiyear Capital Planning* www.osc.state.ny.us/localgov/pubs/lmgm/multiyear.pdf
www.osc.state.ny.us/localgov/pubs/lmgm/capital_planning.pdf.

Appendix C: Audit Methodology and Standards

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

- We interviewed Town officials and employees and reviewed Board minutes and policy to gain an understanding of the budget process, financial management policy and procedures, the cash receipts process including software controls and the monitoring of fund balance.
- To assess budget reasonableness and identify which categories contributed the most to budget variances, we compared budget estimates to actual results for 2016 through 2018 for the general and highway funds. We also compared the 2019 adopted budget to determine whether trends in the Town's budgeting practices continued.
- We reviewed operating results for the general and highway funds and compared the results to the appropriated fund balance to determine whether appropriated fund balance was used as budgeted.
- We analyzed fund balance, including reserve balances, for the general and highway funds and calculated unrestricted and surplus fund balance as a percentage of expenditures and next year's appropriations to help evaluate the reasonableness of the amount maintained.
- We analyzed reserves and related expenditures to determine whether they were properly established, used and funded and whether balances were reasonable.
- We performed departmental cash counts to document all cash on hand on December 4, 2018.
- For our tests of cash receipts, we randomly selected two months from 2018 (July and December) for testing within the Justice Court, Town Clerk's office, recreation, senior center, and finance departments. We used our professional judgment to select two months with interest due for tax collections (February and October). Additionally, we used our professional judgment to select another month with the most recorded receipts for the recreation department (March) and senior center (August) for testing.

Figure 4: Collected and Tested Receipts

Department	Total Tested	Total Collected	Percent Tested
Town Clerk	\$190,547	\$580,054	33%
Tax^a	\$35,701,820	\$60,025,541	59%
Justice Court	\$ 44,851	\$327,000	14%
Senior Center	\$11,620	\$35,500	33%
Recreation Department	\$110,319	\$471,895	23%
Finance^b	\$931,601	\$15,164,124	6%
Total	\$36,990,758	\$76,604,114	48%

a Includes town, county and school taxes

b Includes receipts collected in other departments – Clerk, Tax, Justice Court, Senior Center and Recreation Department

- For the test months, we:
 - Documented cash collections within the various departments based on the electronic receipt records for that department.
 - Obtained bank deposit compositions and compared recorded receipts to deposits to determine whether receipts were deposited timely and intact. For taxes handled by lockbox, we compared batch totals on lockbox statements to bank deposits.
 - Reviewed tax payment envelopes to recorded receipt dates and recalculated late payment interest and penalties to determine whether appropriate interest and penalties were charged.
 - Reviewed disbursement records and monthly reports to determine whether all money remitted by the departments to various entities was properly disposed and reported.
 - Compared approved fee schedules for Clerk and building department receipts to the receipt records to determine whether appropriate fees were charged.
 - Compared registration records and other available supporting documentation to recorded receipts and attendee lists for the senior center to determine if all attendees paid and payments were properly recorded and deposited.
 - Compared senior center program fees charged to those advertised in the Town’s newsletter or event fliers.
 - Reviewed reconciliations/accountabilities or prepared reconciliations.

-
- For August 2018 senior center receipts, we compared the date received as documented on event registration forms to the date recorded and deposited to determine whether the receipts were deposited in a timely manner.
 - We reviewed receipt and permit records for 2018 to determine whether there were any gaps in receipt and permit numbers. When annual electronic data was not available, we reviewed the sequence for the test months.
 - We organized all 2018 recreation department receipts by program and grouped similar programs into categories of similar types of activities for our sample selection. We used our professional judgment to select 10 programs from the 103 groupings of similar activities based on large receipt amounts or the volume of participants within the programs. The receipts for these 10 programs totaled \$77,585, 16 percent of the total \$474,191 program receipts for 2018. For these programs, and the programs with receipts in the selected test month, we compared advertised fees from the Town's newsletter to those charged. We discussed the differences with the recreation director to determine whether there were adequate explanations for these differences.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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

Appendix D: Resources and Services

Regional Office Directory

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

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

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#lmgm

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

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

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

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

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

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