



Town of Hamden

Financial Condition

Report of Examination

Period Covered:

January 1, 2012 — February 22, 2013

2013M-86



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2013

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town 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 Town of Hamden, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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

Introduction

Background

The Town of Hamden (Town) is located in Delaware County. The Town has a Justice Court and provides water distribution, sewer treatment, fire protection, general administration, recreation, road maintenance, and plowing services to its 1,323 residents. The Town's 2013 annual budget is \$1.2 million, funded primarily by real property taxes and State aid.

The Town Board (Board), which comprises five elected members – the Town Supervisor (Supervisor) and four Board members – governs the Town. The Board is responsible for the general management and control of the Town's financial affairs, including monitoring the budget. The Supervisor is the chief executive officer and chief fiscal officer of the Town and is responsible for the Town's financial duties, including preparing various financial reports.

Objective

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

- Has the Board properly monitored budgets and managed fund balance?

Scope and Methodology

We interviewed Town officials, examined financial statements and budgets and, reviewed Town procedures for the period January 1, 2012, to February 22, 2013. We extended our audit scope back to January 1, 2008, for budget analysis purposes.

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

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 agreed with our recommendations and indicated they planned to take corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit*

Report, which you received with the draft audit report. We encourage the Town Clerk to make this plan available for public review in the Town Clerk's office.

Financial Condition

The Board is responsible for making sound financial decisions that are in the best interest of the Town and the taxpayers who fund its operations. This responsibility requires the Board to adopt structurally balanced budgets for all operating funds, which include sufficient revenues to finance recurring expenditures. It is essential that the Supervisor provide monthly financial reports to the Board to enable it to properly manage financial operations, including monitoring budgets and managing fund balance.¹ When adopting the budget, a portion of the unrestricted fund balance is often appropriated to help finance the ensuing fiscal year. The remaining unassigned, unappropriated fund balance is used for cash flow purposes and as a hedge against unanticipated expenditures and/or revenue shortfalls. A continuous decline in the unassigned, unappropriated fund balance indicates a deteriorating financial condition. The resulting cash flow stresses may require the Town to take various measures, such as liquidating assets, reducing services, raising taxes, or issuing debt. Therefore, the Board should not rely on fund balance to support the budget, but on recurring revenue sources instead.

The Board has not properly monitored budgets and managed fund balance in the general fund.² The Board has consistently relied on fund balance to fund operations, which has depleted Town resources. Although fund balance has rebounded some in 2012, there has been a steady decline in reported unassigned fund balance. For example, Table 1 illustrates a decline in unassigned fund balance of 69 percent since 2008.

¹ Fund balance is the difference between revenues and expenditures that accumulates over the years and is key to financing Town operations and providing sufficient cash flow.

² The highway unappropriated fund balance was at a reasonable amount.

Table 1: General Fund - Operating Results and Fund Balance					
	2008	2009	2010	2011	2012
Beginning Fund Balance	\$247,325	\$263,613	\$235,327	\$220,278	\$189,634
Revenues	\$200,456	\$181,951	\$179,100	\$210,946	\$224,495
Expenditures	\$183,831	\$198,839	\$194,149	\$237,423	\$204,231
Operating Surplus/(Deficit)	\$16,625	(\$16,888)	(\$15,049)	(\$26,477)	\$20,264
Interfund Transactions	(\$337)	(\$11,398)	\$0	(\$4,167)	\$688
Year-End Total Fund Balance	\$263,613	\$235,327	\$220,278	\$189,634	\$210,586
Less: Restricted Fund Balance	\$195,081	\$187,155	\$187,254	\$173,386	\$174,700
Less: Appropriated Fund Balance amount used to balance budget	\$33,000	\$33,000	\$30,000	\$28,000	\$25,000
Unassigned Fund Balance	\$35,532	\$15,172	\$3,024	(\$11,752) ^a	\$10,886

^a During the 2012 budget preparation, the Supervisor miscalculated the available appropriation of fund balance and prepared the budget using fund balance that was not actually available.

The restricted fund balance represents proceeds of grants that were restricted for specific purposes. The Government Finance Officers Association (GFOA) recommends that local governments, at a minimum, maintain unrestricted fund balance of no less than two months (approximately 17 percent) of regular revenues or expenditures.³ The Town’s unassigned fund balance at the end of 2012 was only 5 percent of the 2013 general fund budget of \$223,775. We reviewed the 2013 budget and found the Town appropriated \$25,000 of fund balance while only \$35,876 of unassigned fund balance was available. If the Board does not take action to reduce expenditures below budget or increase revenues, the town will suffer significant deterioration of financial condition in 2013.

Further, the Board didn’t approve budget amendments for the 2012 budget until January 2013, one month after the budget lapsed. While the bookkeeper prepares monthly budget-to-actual reports and gives them to the Supervisor, the Supervisor does not provide these to the Board at monthly Board meetings; instead, he verbally presents the information to the Board. While the 2012 budget was not overspent in total, we identified several individual accounts that were overspent. For example, as of December 2012, the Town had overspent three budget lines by almost \$11,000, or 5 percent of their budget. Given that the 2013 budget included an appropriation of most of the available fund balance at the end of 2013, it is of particular importance that the Board take steps to monitor the budget and prevent further overexpenditures.

³ GFOA of the US and Canada, Best Practice: “Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009)”

These occurred because the Board relied on the Supervisor to inform them of budget performance throughout the year and only approved budget transfers after fiscal year-end. Relying solely on one person to monitor budget performance is not an effective practice and can lead to errors occurring without detection and correction. Officials told us they strive to keep taxes low and the use of fund balance provides a source other than taxes to fund appropriations. While the intent of keeping the real property tax burden low is laudable, the continued use of fund balance to finance operations will eventually deplete fund balance to a point where the Town may have no other options than to significantly raise taxes or cut services, and can also affect their ability to react to external influences such as economic downturns and emergencies.

Recommendations

1. The Supervisor should provide the Board with monthly budget-to-actual reports.
2. The Board should monitor the budget-to-actual results throughout the year and amend the budget prior to exceeding appropriations.
3. Town officials should evaluate recurring revenue sources for budgetary purposes over which they have direct control (such as real property taxes) to fund appropriation increases and reduce reliance on fund balance.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Town of Hamden



WAYNE E. MARSHFIELD
TOWN SUPERVISOR

6754 Basin Clove Road * Hamden, New York 13782
Phone (607) 746-6660 * Fax (607) 746-2405

June 6, 2013

Mr. H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear Mr. Eames:

Please find this as our Town of Hamden response letter relative to the recent audit 2013M-86.

We found that your audit was very informative and one that we agree with. It further confirms that the Town of Hamden does use its General Fund fund balance to finance the upcoming fiscal years and uses the remainder of it for unanticipated expenditures and revenue shortfalls. We do agree that the fund balance in the General Fund is declining and that eventually we will have to cut expenses or raise taxes to increase the fund balance to an acceptable level. Our Town tries to maintain the State recommended 2% tax cap and is further suffering from continuing revenue shortfalls. In our 2013 budget we decreased the mortgage tax revenue from \$17,000 in 2012 to \$15,000 in 2013. Based on the recent semi annual receipt this year, we are on pace to receive only \$11,000 in mortgage tax. This is an example of another revenue shortfall. Unfortunately, we are victims of the economic times we are in and our Town Board has to deal with it.

We agree with your audit report and findings and will monitor the budget to actual reports more closely. I have begun to supply the Board with the monthly reports so they can more accurately monitor the same.

Sincerely yours,

Wayne E. Marshfield, Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Town officials, tested selected records, and examined pertinent documents for the period January 1, 2012, through February 22, 2013. We extended our audit scope back to January 1, 2008 for budget analyses purposes. Our procedures included the following:

- We interviewed officials with budgeting or fiscal responsibilities to obtain an understanding of the Town's policies, procedures, and practices for budget development and monitoring, and for the appropriation of fund balance.
- We reviewed financial records for the fiscal years ending 2008 through 2012 to analyze changes in fund balance.
- We reviewed the results of operations and analyzed changes in fund balance for the general and highway funds. To gain additional background information and perspective, we also reviewed financial data from fiscal years prior to the audit scope period.
- We compared the adopted 2011 and 2012 appropriation budgets for the general and highway funds to actual expenditures and identified the five accounts in each of those funds with the largest negative budget-to-actual variance. For those accounts identified, we verified if the overages were for known expenses.
- We tested the reliability of the data reported on the AUD to the Town accounting records by comparing reported balances from the AUD to the Town's reported balance at year end for 2011 and 2012.

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

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AND SCHOOL ACCOUNTABILITY

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

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