



Town of Fishkill

Fiscal Stress

Report of Examination

Period Covered:

January 1, 2012 — March 31, 2013

2013M-188



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 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 the Town of Fishkill, entitled Fiscal Stress. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Fishkill (Town) is located in Dutchess County, covers 32 square miles, and serves approximately 22,100 residents. The Town provides various services to its residents, including law enforcement, street maintenance, parks and recreation programs, water, sewer, and general government support. The Town includes the Village of Fishkill (Village) within its boundaries.

The Town is governed by the Town Board (Board) which comprises the Town Supervisor and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor, who serves as the chief executive officer, is responsible, along with other administrative staff, for the day-to-day management of the Town under the Board's direction. The Town's total budgeted appropriations were approximately \$13.8 million for the 2011 fiscal year and approximately \$13.5 million for the 2012 fiscal year.

Scope and Objective

The objective of our audit was to review the Town's financial condition for the period January 1, 2012, to March 31, 2013. In addition, we extended our review of financial trends back to 2009 for major operating funds, and to 2007 for the town-outside-village general fund. Our audit addressed the following related questions:

- Have Town officials adequately monitored the Town's fund balance, developed realistic and structurally balanced budgets, managed debt, and taken appropriate actions to maintain the Town's financial stability?
- Are internal controls over restricted funds appropriately designed and operating effectively to ensure that moneys are used for designated purposes?

Audit Results

The Town is currently in fiscal stress, due to the Board's failure to adopt realistic budgets over the past four years. The Town's year-end fund balance for its major operating funds, combined, was at a \$2.2 million deficit at the end of 2012. This resulted from overestimated revenues in 2009 and 2010 and underestimated expenses in 2010 and 2011. The town-wide general fund¹ balance deficit increased from \$384,000 in 2009 to a \$1.4 million deficit at the end of 2011. To cover operating expenses, Town

¹ The town-wide funds have tax bases that encompass the entire Town, including the Village. The town-outside-village funds have tax bases that encompass only the portion of the Town that lies outside the Village.

officials loaned moneys between multiple funds, resulting in \$10.3 million of outstanding interfund loans at the end of 2012. Further, the sewer fund's fund balance dropped from a surplus of \$765,000 in 2009 to a \$1.3 million deficit in 2012, primarily because sewer revenues were not sufficient to cover operating costs, and the town-outside-village general fund had a \$2.4 million fund balance deficit at the end of 2012.

We also found that the Town did not use nearly \$782,000 in donated funds as stipulated by the donors, but instead applied these funds to the Town's general and sewer operations. This included \$758,000 intended for a sewer system extension which was never built; nonetheless, Town officials budgeted \$850,000 in revenue for the sewer fund, to be generated from sewer hookups. Because the sewer extension was not built, the hookup fees were not realized and the Town incurred an \$850,000 revenue shortfall. Further, of \$25,000 received for an affordable-housing project, \$23,750 was instead used for general Town operations. Town officials did not maintain proper accounting records and did not segregate the donated funds for the exclusive purposes intended.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our findings and indicated they have already initiated, or plan to initiate, corrective action. Appendix B includes our comment on an issue raised in the Town's response.

Introduction

Background

The Town of Fishkill (Town) is located in Dutchess County, covers 32 square miles, serves approximately 22,100 residents, and has about 100 employees. The Town provides services for its residents, including law enforcement, street maintenance, parks and recreation programs, water, sewer, and general government support. The Town includes the Village of Fishkill (Village) within its boundaries.

The Town Board (Board) is the legislative body responsible for managing Town operations. The Town Supervisor (Supervisor) is a member of the Board and serves as the chief executive officer. The Supervisor is responsible for receiving, disbursing, and maintaining custody of Town moneys, maintaining accounting records, and providing financial reports to the Board. The Town Comptroller is the Town's budget officer, who, in conjunction with the Board, establishes preliminary budgets.

The Town's budgeted appropriations were approximately \$13.8 million for the 2011 fiscal year and approximately \$13.5 million for the 2012 fiscal year, funded primarily with real property taxes, user charges, and State aid. Expenditures are primarily accounted for in the town-wide (TW) general, town-outside-village (TOV) general, TW highway, TOV highway, sewer, and water funds, which are the Town's main operating funds.²

Fiscal stress is a judgment about the financial condition of an individual entity that must take into consideration the entity's unique circumstances, but can generally be defined as a local government's inability to generate enough revenues within its current fiscal period to meet its expenditures (budget solvency). The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments (counties, cities, towns, and villages) and school districts based on financial and environmental indicators to determine if these entities are in or nearing fiscal stress. The Town has been classified as being in fiscal stress.

Objective

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

- Have Town officials adequately monitored the Town's fund balance, developed realistic and structurally balanced budgets,

² The town-wide funds have tax bases that encompass the entire Town, including the Village. The town-outside-village funds have tax bases that encompass only the portion of the Town that lies outside the Village.

managed debt, and taken appropriate actions to maintain the Town's financial stability?

- Are internal controls over restricted funds appropriately designed and operating effectively to ensure that moneys are used for designated purposes?

**Scope and
Methodology**

We examined the Town's financial condition for the period January 1, 2012, to March 31, 2013. In addition, we extended our review of financial trends back to 2009 for major operating funds, and to 2007 for the town-outside-village general fund.

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 C of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our findings and indicated they have already initiated, or plan to initiate, corrective action. Appendix B includes our comment on an issue raised in the Town's response.

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

Fiscal Stress

Financial condition may be defined as a municipality's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A municipality in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a municipality in fiscal stress usually struggles to balance its budget, suffers through disruptive service level declines, has limited resources to finance future needs, and has minimal cash available to pay current liabilities as they become due.

Town officials have a responsibility to taxpayers to ensure that their tax burden is not greater than necessary. Therefore, it is essential that Town officials develop reasonable budgets and manage fund balance responsibly to fulfill this responsibility. In addition, Town officials should develop detailed multiyear plans to allow them to set long-term priorities and work toward goals.

The Town has had a deficit fund balance³ in the TW general fund since 2009, when it ended the year with a \$384,000 deficit. The sewer fund's fund balance dropped from \$765,000 in 2009 to a \$1.3 million deficit in 2012, and the TOV general fund carried fund balance deficits from 2009 through 2012, ranging from \$2.5 million to \$2.8 million. To cover operating expenses, Town officials loaned moneys between multiple funds, resulting in an accumulated \$10.3 million balance of outstanding interfund loans at the end of 2012. Further, Town officials improperly used \$782,000 in donated moneys for general operations instead of the intended purposes (see next section, "Restricted-Use Funds").

Fund Balance

A key measure of the Town's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance provides cash flow and can be used to help finance the next fiscal year's operations. The restricted portion of fund balance represents the amount that the Town may use only for specific purposes. The unrestricted portion of fund balance is the amount that may be appropriated to fund programs in the next year's budget.

To assist in managing financial operations and ensuring the orderly operation of government, the Town should maintain a reasonable level

³ Unassigned funds remaining after setting aside \$18,668 in reserves

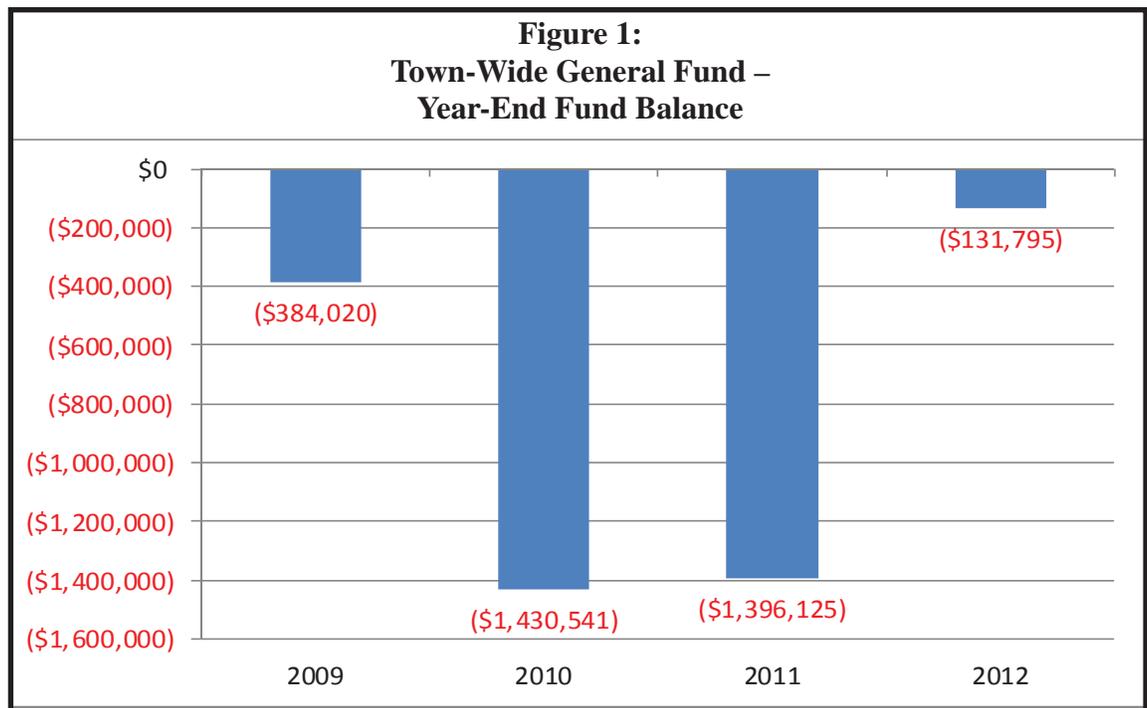
of unexpended surplus funds⁴ as a financial cushion for unanticipated expenditures and/or revenue shortfalls. Maintaining a reasonable level of unexpended surplus funds is a key element of effective long-term financial planning. It is sound practice for a board to adopt budgets that are based on realistic estimates of revenues and expenditures so that the fund balance is maintained at healthy levels.

Four of the Town’s major operating funds – TW and TOV general funds, the TOV highway fund, and the sewer fund – have carried significant fund balance deficits over the past four years.

	2009	2010	2011	2012
TW General Fund	(\$384,020)	(\$1,430,541)	(\$1,396,125)	(\$131,795)
TOV General Fund	(\$2,521,860)	(\$2,714,469)	(\$2,813,031)	(\$2,487,704)
TW Highway Fund	\$58,653	(\$2,111)	(\$59,688)	(\$26,454)
TOV Highway Fund	(\$548,353)	(\$608,566)	(\$483,361)	(\$434,280)
Sewer Fund	\$764,805	(\$148,872)	(\$332,258)	(\$1,307,123)
Water Fund	\$490,549	\$1,106,192	\$1,398,744	\$2,149,034
Combined Funds	(\$2,140,227)	(3,798,367)	(\$3,685,719)	(\$2,238,323)

Town-Wide General Fund — The TW general fund balance at the end of the 2009 fiscal year was in a \$384,000 deficit which increased to about \$1.4 million at the end of 2011. The deficits were caused by unrealistic budgets that overestimated revenues and underestimated expenses (see later discussion of “Budget vs. Actual Results”).

⁴ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balances classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term “unexpended surplus funds” to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year’s budget (after Statement 54).



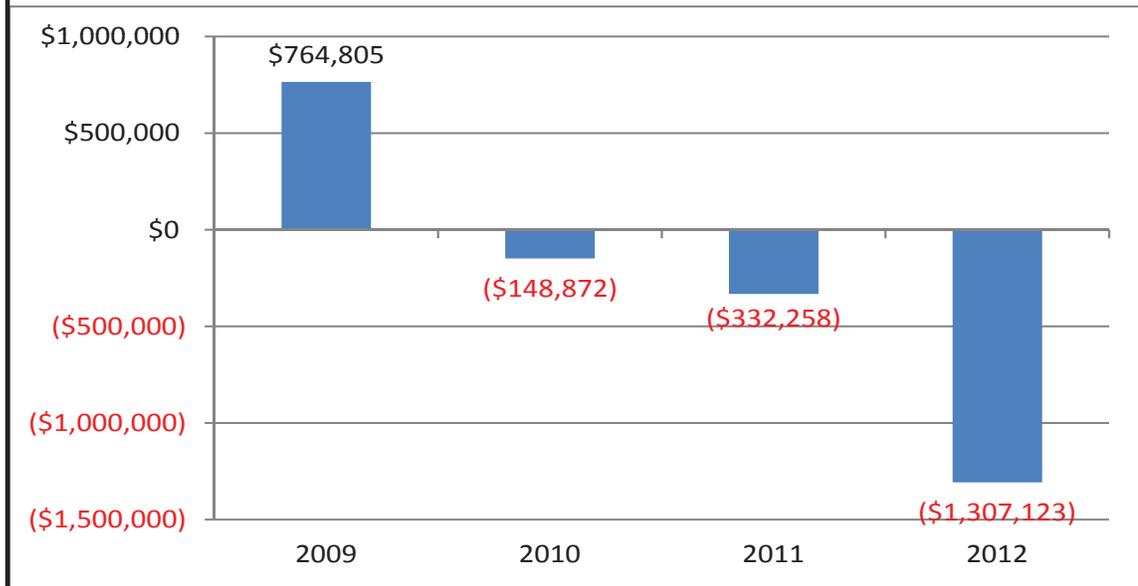
By the end of 2012, the fund balance deficit was greatly reduced to \$132,000, due to tax levy increases, improved budgeting practices, and a reduction in TW general fund advances to the TOV general fund. It is essential that, going forward, Town officials maintain reasonable budgeting practices to eliminate this deficit.

Town-Outside-Village General Fund — This fund has carried a fund balance deficit of over \$2 million since 2007. This was largely from over-budgeting revenues and under-budgeting police personnel and legal services costs. Similar to the TW general fund, while the TOV general fund showed some improvement by 2012, it has also carried a significant deficit since 2009 which must be addressed.

Town-Outside-Village Highway Fund — This fund has carried a deficit since 2009. Improved budgeting practices have helped reduce this deficit beginning in 2011, resulting in limited improvement by 2012.

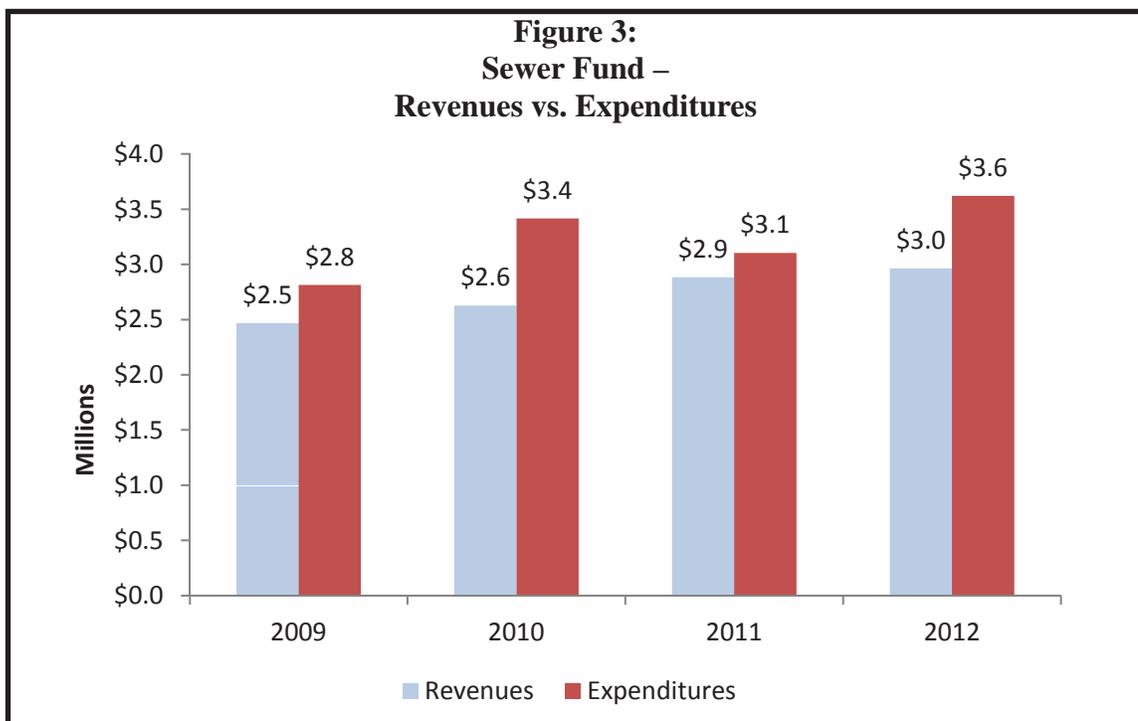
Sewer Fund — The sewer fund’s total fund balance decreased from approximately \$765,000 in 2009 to a \$1.3 million deficit in 2012. The sewer fund balance has been in a deficit for the last three completed fiscal years, and that deficit increased in each of those years.

**Figure 2:
Sewer Fund –
Year-End Fund Balance**



The sewer fund sustained operating deficits in the last four fiscal years because sewer rates were not sufficient to cover operating costs. Although the Board increased sewer rates in September 2012 by 20 percent, the increase in revenue may not be sufficient to cover expenditures. Town Officials also found that two smaller sewer districts had never charged residents for services, resulting in lost revenue of approximately \$188,000 annually.

**Figure 3:
Sewer Fund –
Revenues vs. Expenditures**



Budget vs. Actual Results

The Town Comptroller, in conjunction with the Board, is responsible for establishing budgeted appropriations at a level sufficient to finance planned services, estimating Town revenues and other financing sources, determining whether the Town will have unassigned fund balance to help fund the ensuing year's operations, and establishing the tax levy. Prudent fiscal management requires the Board to continually monitor financial operations and amend the budget, when necessary, to ensure that appropriations are not overspent.

Town officials did not adopt realistic budgets in the past, resulting in operating deficits in the TW general fund. The Board overestimated revenues in 2009 and 2010 and underestimated expenses in 2010 and 2011. For example, in 2009, mortgage tax was over-budgeted by \$946,159 and parks revenue by \$50,042. In 2010, mortgage revenue was again over-budgeted, by \$445,934, and parks revenue by \$59,109, while appropriations for legal services were under-budgeted by \$379,023 and for contracted assessor services by \$116,701. Similarly, in 2011, appropriations for legal services were under-budgeted by \$173,615 and for parkland equipment by \$106,279.

Improvements in revenue and expenditure estimates in 2011 and 2012 resulted in operating surpluses in both years. These surpluses contributed to the reduction of the TW general fund's accumulated deficit.

	2009	2010	2011	2012
Budgeted Revenue	\$4,305,000	\$3,759,304	\$3,805,064	\$3,807,671
Actual Revenue	\$3,590,148	\$3,329,915	\$3,926,156	\$4,283,124
Over/(Under) Budget	(\$714,852)	(\$429,389)	\$121,092	\$475,453
Budgeted Appropriations	\$4,305,000	\$3,759,304	\$3,805,064	\$3,807,671
Actual Expenditures	\$4,064,167	\$4,391,929	\$3,842,069	\$3,040,005
(Over)/Under Budget	\$240,833	(\$632,625)	(\$37,005)	\$767,666
Operating Surplus/(Deficit)	(\$474,020)	(\$1,062,015)	\$84,087	\$1,243,119

^a Rounded to the nearest dollar

It is important that Town officials continue to develop realistic estimates and monitor the Town's budget closely to ensure that spending does not exceed the budget.

Interfund Loans

General Municipal Law (GML) allows town boards to temporarily advance moneys from one fund to another to address budget shortfalls when available cash is not sufficient to pay current obligations. The advance must be authorized in the same manner as prescribed by

law for making budgetary transfers between appropriations. Suitable records must be maintained, and the advance must be repaid no later than the end of the fiscal year in which the advance was made.

Although the Board properly authorized interfund advances, Town officials have not repaid them in a timely manner and did not keep suitable records. The total balance for the interfund advances, which involved all of the Town's operating funds and numbered about 240 transactions, was approximately \$10.3 million at the end of 2012. Many of these advances dated back to at least 2009. Due to the volume of these transactions, we focused on the Town's two largest operating funds – the TW and TOV general funds – and calculated that the TOV general fund owed a net total of \$141,337 to the TW general fund.

However, while the individual interfund advances were properly recorded, Town records did not summarize the net amounts currently owed between specific funds, which have accumulated because the numerous advances were not repaid. Without such a summary, the Board does not have up-to-date information to determine the true financial position of the Town's funds and to repay the correct amounts of interfund advances. The failure to repay interfund advances by the end of a fiscal year is not in compliance with GML and has likely resulted in taxpayer inequities.

The Town Comptroller acknowledged these deficiencies and is currently working on updating the records and netting accounts to properly reflect current interfund loan balances and repaying the outstanding net totals.

Multiyear Financial Planning

An important Board responsibility is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important for Town officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and help Town officials identify revenue and expenditure trends, set long-term priorities and goals, and avoid large fluctuations in tax rates. Multiyear plans also allow Town officials to assess the effect and merits of alternative approaches to address financial issues. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the financial priorities and goals set by the Board. The Board should monitor and update long-term financial plans on an ongoing basis to ensure that its decisions are guided by the most accurate information available.

Although Town officials developed a multiyear plan to eliminate the Town's fund balance deficit, it is not comprehensive and was not adopted by the Board. In addition, the multiyear plan does not address the Town's capital needs. If Town officials do not plan for increases in fixed capital costs, the Town could be forced to borrow money, thereby incurring debt service costs and reducing its financial flexibility. It is important for the Board to adopt realistic budgets and develop a long-term plan to identify recurring sources of revenue sufficient to finance anticipated recurring expenditures. The Supervisor told us that the Board is currently working on developing multiyear financial plans.

Recommendations

1. The Board should work to reduce the deficits in all the major funds and develop a realistic plan to accumulate fund balance so that the Town is prepared for unexpected expenses or revenue shortfalls.
2. The Board should adopt structurally balanced budgets that are based on reasonable revenue and expenditure estimates. The Board and Town officials should monitor operations throughout the year and make the necessary adjustments to ensure that operating deficits do not occur.
3. Town officials should review all interfund advances and determine the actual amount owed each fund. The Board should ensure that all interfund borrowings are repaid in a timely manner.

Restricted-Use Funds

Funds received for specific purposes from private sources such as gifts, donations, or grants should be restricted and used in accordance with the conditions prescribed by the donor. It is best to segregate such funds and maintain separate accounting records to avoid losing the identity of the donations. The Board should provide oversight and ensure that restricted funds are used for their intended purpose.

The Town used \$758,000 received for extending sewer services and \$23,750 received for affordable housing from private donors for purposes other than those stipulated by the donors. Town officials did not maintain proper accounting records for those donations and did not segregate the funds received. The use of these moneys for Town operations, rather than the intended purposes, was improper.

Sewer Extension

In 2007, a private developer proposed a multi-family affordable-housing development to be built in the Town. The developer agreed to pay a one-time charge of \$758,000 for a sewer improvement district extension as part of an agreement with the Town. The sewer extension would cover a nearby residential area. Town officials provided us with the Board resolution outlining the agreement between the Town and the developer. The resolution indicates that the moneys were specifically to be used for the sewer extension.

The Town received \$758,000 from the developer in July 2008 and deposited it in the Town's common sewer bank account instead of segregating these funds and depositing them into a separate account exclusively for the sewer extension. In addition, the Town did not keep separate accounting records for these moneys. According to Town officials, the moneys were used for general operation and maintenance of the sewer system.

No expenditures were budgeted for constructing the sewer extension and it was never built. However, the Board budgeted approximately \$357,000 in 2009 and \$493,000 in 2010 as revenues for the sewer fund, to be generated from hookup fees related to the sewer extension. Because the extension was not built, the revenues were never realized, creating a budget shortfall of approximately \$850,000. The \$758,000 appears to have been used to cover the shortfall in revenue in these two fiscal years. As a result, the funds for the sewer extension were not used to extend the sewer services and the Town cannot account for the funds received for that purpose.

Affordable Housing Fund

In 2007, a local bank proposed a bank branch to be built in the Town. As part of the agreement with the Town for developing this site, the bank offered to assist the Town in extending water service to the residents of a neighborhood adjacent to the new bank. The proposal included the establishment of a \$25,000 grant to help residents connect to the water system. Any unused grant funds would be contributed to the Town's affordable housing trust fund.

The grant program ran from July 2009 through July 2011. Only one resident participated and received a grant of \$1,250. The bank remitted the remaining \$23,750 to the Town in August 2011. Town officials provided us with copies of the bank remittance, email correspondence between Town officials, and Board resolutions approving the site development for the proposed bank. All these documents indicate that the remaining moneys from the grant were for the affordable housing fund.

The \$23,750 was received and deposited into the TOV general fund bank account; the funds were not segregated or accounted for separately for the exclusive use of the affordable housing fund. Town officials could not provide us with a complete accounting for these moneys, which they indicated were used for general operating expenses.

Most of the funds earmarked for use for the affordable housing trust fund were not used to extend water services or for any other services related to affordable housing. Because the Board failed to provide oversight of these funds and account for them properly, the money was not used as the donors intended.

Recommendations

4. The Board should determine how the \$758,000 of funds intended for the sewer extension and the \$23,750 balance of funds intended for use in the affordable housing trust fund were actually expended. The funds should be replaced and used for their intended purposes.
5. The Board should oversee the use of gifts, donations, and grants to ensure that funds are used for their intended purpose.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Robert P. LaColla
Supervisor
E-mail: supervisor@fishkill-ny.gov
(845) 831-7800 Ext. 3309
(845) 831-6040 Fax



Fishkill Town Hall
807 Route 52
Fishkill, NY 12524-3110
website: www.fishkill-ny.gov

August 14, 2013

Ms. Tenneh Blamah
Chief Examiner of Local Government and
School Accountability
State of New York, Office of State Comptroller
110 State Street
Albany, New York 12236

**RE: Response to Town of Fishkill Fiscal Stress Report of Examination for the Period
January 1, 2012 – March 31, 2013**

Dear Ms. Blamah:

I want to express our gratitude to the New York State Comptroller's Office and the team of auditors sent to Fishkill. Since taking office in 2012, the focus of this Administration is to uncover the true conditions of the Town's finances in order to determine accurate fund levels, clean up inter-fund borrowings and set appropriate rates for services. The diligence of the auditors helped to facilitate the Town Administration's efforts to correct these long-standing problems of the past.

Please be advised this correspondence will also serve as the Town of Fishkill's Corrective Action Plan (CAP). We have reviewed the preliminary draft findings related to the Executive Summary Report of Examination of the Town of Fishkill audit and offer our response as follows:

The Town generally agrees with the State of New York Office of the State Comptroller's Executive Summary Audit Result. We understand that your audit does not allow recognition of changes in leadership policies – only exceptions to generally accepted accounting principles and written Town policies.

The Town agrees and acknowledges that the prior Administration's budgetary practice, its lending of moneys between multiple funds and its application of donated funds to cover operating expenses has significantly affected the Town's financial stability. In 2012, the new Administration reversed the trend and implemented transparent processes and stricter fiscal oversight and management. The new Board's adopted 2013 Budget is based on conservative revenue and realistic expenditure estimates.

Additionally, the new Board addressed the deficit by incorporating a principal reduction of \$1,226,455 of its Tax Anticipation Note and unanimously adopted a local law to override the two percent tax cap.

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The new Administration addressed the operating deficits in both the Dutchess Park Sewer district and General T.O.V. (B) funds. On August 7, 2013 after a Public Hearing, the Town Board approved a 135% rate increase for the users of the Dutchess Park Sewer District and projects to pay off the fund balance deficit by fiscal year end 2018. In addition, the Town Board approved a 54% tax rate increase for 2013 for the General T.O.V. (B) Fund and projects to pay off the fund balance deficit by fiscal year end 2016.

The new Board's stricter oversight is evident in the Town's 2012 Audited Financial Statement operating surplus of \$1,124,839 in the General Town-wide Fund, \$298,473 in the General T.O.V Fund, \$66,949 in the Highway Town-wide Fund and \$84,155 in the Highway T.O.V. Fund. Measures of fiscal restraint taken by the current Town Supervisor and Comptroller, such as departmental expense allocations, cost-cutting initiatives and service contract review and renegotiations, have resulted in a reduction of governmental expenditures.

Additionally after extensive research, the Town has identified the \$10.3 million inter-fund loan transactions (some going back to 2000). Currently the inter-fund loans have been netted to \$4.8 million.

The Town agrees that the prior Administration did not segregate the donated funds in the amounts of \$758,000 and \$23,750, respectively, for the purposes intended. Both donations were identified during the Town's internal audit process and the information provided to the State Comptroller's Office and to the Town's outside auditors. The restricted funds were accounted for in the Town's Audited Financial Statements for the year ended December 31, 2012. The donation amounts are included in the Town's fiscal year end 2012 restricted fund balances.

We have reviewed the recommendations related to the fiscal stress report of examination of the Town of Fishkill audit and offer our response as follows:

Fiscal Stress

Recommendation No. 1:

The Board should work to reduce the deficits in all the major funds and develop a realistic plan to accumulate fund balance so that the Town is prepared for unexpected expenses or revenue shortfalls.

Response:

In 2012, the new Administration and the new Town Board have begun a four year process to eliminate the deficit in the Town's four major funds. In order to accomplish its goals, the Board had unanimously adopted a local law to override the two percent tax cap imposed by New York State, implemented significant cost cutting measures in 2012 and increased the 2013 tax rates by 54%.

Additionally during the 2013 budget process, the Board agreed upon the elimination of the entire fund deficit in Highway Town-wide (DA) and Highway T.O.V (DB) Funds by year end 2013, the fund deficit in the General Fund (A) by year end 2015 and the fund deficit in T.O.V. Fund (B) by year end 2016. In order to accomplish this goal, the 2013 Budget includes deficit pay down in the General Fund (A) of \$500,000, the T.O.V. Fund (B) of \$726,455, the Highway Town-wide (DA) of \$38,000 (DA fund deficit was actually eliminated by year end 2012), and the Highway T.O.V (DB) of \$187,924.

The Town agrees that the Dutchess Park Sewer Fund sustained operating deficits in the last four fiscal years because sewer rates were not sufficient to cover operating costs. As stated before, the new Town Board implemented corrective actions on August 7, 2013 by approving a 135% increase in user fees and projects to pay off the fund balance deficit by year end 2018.

The Town disagrees with the finding that the two sewer districts non-charge for services resulted in lost revenue of approximately \$188,000 annually. The two sewer districts cited in the report are the White Birch Sewer District and the Merritt Sewer District.

See
Note 1
Page 22

The White Birch Sewer District service began in 2006 with the construction of nine (9) homes; there were five (5) additional homes added to the district in 2008, one (1) home in 2009 and five (5) homes in 2010. At this time the district consists of twenty (20) users. Water service to the homes is provided by the Village of Fishkill, and sewer service is billed by the Town of Fishkill based on the readings obtained from the Village. After an internal audit by the new Administration, it was discovered that the Town had failed to bill the users in this district until the first quarter of 2012. This oversight was brought to the attention of the State’s audit team. The total billable service in 2012 for the twenty (20) homes was approximately \$6,885. The estimated total lost revenue from 2006 to 2011 for non-billing in the White Birch Sewer district is \$36,776.14. The breakdown is as follows:

2006	\$ 1,720.31
2007	\$ 5,671.28
2008	\$ 6,761.72
2009	\$ 6,041.30
2010	\$ 8,724.08
2011	\$ 7,857.44

Both White Birch Sewer and Merritt Sewer Districts are “baby” districts of Dutchess Park Sewer District. Both districts are billed under the umbrella of the Dutchess Park Sewer District. Revenues and expenses of the districts are recognized under the combined Dutchess Park Sewer District, instead of their individual Districts. In addition to the user fees, the Merritt Sewer District residents are imposed a special assessment of \$185,000.

Recommendation No. 2:

The Board should adopt structurally balanced budgets that are based on reasonable revenue and expenditure estimates. The Board and Town officials should monitor operations throughout the year and make the necessary adjustments to ensure that operating deficits do not occur.

Response:

The current Board has abolished past budgetary practices and has adopted a structurally balanced conservative budget for 2013. The current Board’s objective is to have operating expenses fully funded by revenues, including taxes, to eliminate the past practice of issuing debt to cover operating expenses, to minimize and in the near future eliminate inter-fund borrowing. Currently, the year to date budget comparison is provided to and reviewed by the Board on a monthly basis and is available for public review on the Town’s website.

Recommendation No. 3:

Town officials should review all inter-fund advances and determine the actual amount owed each fund. The Board should ensure that all inter-fund borrowings are paid in a timely manner.

Response:

After six months of extensive research, the massive borrowings between the Town's multiple funds dating back to fiscal year 2000 have been identified and correctly classified. The fiscal year end 2012 inter-fund advances cumulative balance of \$10.2 million has been reduced to \$4.8 million and summarized. The current Administration's policy calls for inter-fund advances to be authorized and approved by the Board, properly recorded and repaid by the end of the fiscal year in which the advance was made.

Recommendation No. 4:

The Board should adopt a formal multiyear financial and capital plan.

Response:

During the 2013 budget process, three deficit reduction scenarios were presented to the Board. After extensive discussions, the Town Board approved the plan to reduce the deficit in four years. While a multi-year plan was not formally adopted, the Town Board clearly understood the budget's goal of deficit elimination and structural balance. The Town is now in the process of drafting a formal multi-year financial plan and five (5) year capital plan, which will be presented to the Board during the 2014 Budget process.

Recommendation No. 5:

The Board should determine how the \$758,000 of funds intended for the sewer extension and the \$23,750 balance of funds intended for use in affordable housing trust fund were actually expended. The funds should be replaced and used for their intended purposes.

Response:

During the Town's internal audit, it was determined that the funds were used for operating expenditures within the Duchess Park Sewer District and the General T.O.V. Fund. The \$758,000 was recognized and reported as restricted fund balance in the 2012 independent audit. The \$23,750 was reclassified from the TOV Fund and correctly posted to the Housing Trust Deposit account.

Recommendation No. 6:

The Board should oversee the use of gifts, donations, and grants to ensure the funds are used for their intended purpose.

Response:

At the request of the current Town Comptroller, the Town Board established a formal process in 2012 for accepting donations. The process calls for a Town Board resolution to accept all donations. The resolution must state the intended use of the funds. This ends the past practice of "back door" donations. All donations and grants are now properly recorded as restricted use.

The Town of Fishkill once again would like to express its gratitude to the State for assisting with its recovery process. Upon your acknowledgement of the combined response meeting the CAP requirements, the Town Board will officially approve the Corrective Action Plan and make it available for public inspection on the Town of Fishkill's website and at the Office of the Town Clerk.

Respectfully,

Robert P. LaColla
Supervisor

APPENDIX B

OSC COMMENT ON THE TOWN'S RESPONSE

Note 1

Based on information supplied to us by Town officials, the Merritt Sewer District revenue would have been approximately \$185,500 and the White Birch Sewer District revenue would have been approximately \$2,300. Both Districts are listed as separate sewer districts in the Town's annual budget. Furthermore, the Supervisor did not provide documentation to support the lost revenue figures as stated in the response letter.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using the local government's annual update document⁵ and information from the United States Census Bureau, the New York State Department of Labor, and the New York State Education Department, among other sources. The Town has demonstrated signs of fiscal stress in several areas. Due in part to these fiscal stress indicators, we selected the Town for audit.

Our overall goal was to assess the Town's financial condition and identify areas where the Town could realize efficiencies and protect assets from loss or misuse. To accomplish this, our initial assessment included a comprehensive review of the Town's financial condition.

To achieve our financial condition and restricted fund objectives and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the Town's policies and procedures for developing and reporting information relevant to financial and budgeting activities. This included gaining information on the fiscal responsibilities of Town officials.
- We reviewed Board minutes to assess the Town's control environment, including oversight of financial operations.
- We interviewed Town officials to determine what processes were in place and gain an understanding of the Town's financial situation and budget.
- We evaluated the audit area for the risk of potential fraud, theft and/or professional misconduct.
- We analyzed five-year data filed with the Office of the State Comptroller to evaluate fund balance trends.
- We reviewed the Town's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.
- We reviewed audit reports, budgets, budget-to-actual reports, and interfund transfer schedules to assess the Town's current financial position and prior-year trends in the Town's financial position.
- We corresponded via email with Board members to gain an understanding of their level of involvement in Town operations.
- We interviewed appropriate Town officials to gain an understanding of the issues surrounding restricted funds for the sewer extension and the affordable housing grant, including the controls that were in place. We reviewed the contracts, resolutions, and bank statements. We attempted to review accounting records to determine how Town officials initially recorded the funds and

⁵ Required to be submitted annually by the Town to the Office of the State Comptroller

for what purpose they were used.

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.

APPENDIX D

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