

Town of Bolton

Urban Development Action Grant Repayment Funds

MAY 2018



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

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Report Highlights

Town of Bolton

Audit Objective

Determine whether the Town used the Urban Development Action Grant (UDAG) repayment money for eligible purposes and if the corresponding financial activity was properly authorized, recorded and reported.

Key Findings

- The Board's use of UDAG repayment money totaling \$4.5 million for long-term loans to fund capital projects was not consistent with their adopted policy to use the money as revolving loans for local business development.
- Board-approved loans made from the community development (CD) fund were recorded as transfers, rather than as receivables and due to other funds, resulting in an understatement of nearly \$3.6 million in the CD fund as of December 31, 2016.

Key Recommendations

- Adopt a policy to provide guidelines for loans made from the CD fund to other Town funds.
- Maintain adequate records to account for loans made from UDAG repayment money to enable the Board to determine actual loan balances due to the CD fund.

Town officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate corrective action.

Background

The Town of Bolton (Town) is located in Warren County.

The Town is governed by an elected five-member Town Board (Board), which consists of the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor is assisted by a bookkeeper who is responsible for maintaining the accounting records.

Quick Facts

Population	2,400
Total UDAG Repayment Funds Loaned January 1, 2008 through May 31, 2017	\$4.5 million
Loans Due To CD Fund as of May 31, 2017	\$3.6 million

Audit Period

January 1, 2008 - May 31, 2017

Urban Development Action Grant Repayment Funds

The purpose of urban development action grants (UDAGs) is to stimulate economic development activity in cities and urban counties. In 2009, the Town received \$4 million from the Sagamore Hotel for the repayment of an UDAG owed to the Town under a grant agreement. The \$4 million repayment was accounted for in the Town's community development (CD) fund and the money was deposited in a separate bank account maintained for the CD fund.

Subsequently, the Board authorized loaning this money to three other Town funds (i.e., general, water and sewer) and one local business on a revolving basis for capital projects and economic development. These loans are repaid by the receiving fund or business in accordance with the Board's authorized loan amortization schedules. Loans to other Town funds are repaid through an annual budget appropriation in the borrowing fund's budget. As of May, 31, 2017, the three Town funds owed the CD fund approximately \$3.6 million in outstanding loans. Included in the loan amount due to the CD fund is one loan to a local business whose original loan amount was \$5,040.

How Should the UDAG Repayments Be Used?

The United States Department of Housing and Urban Development (HUD) defines UDAG loan repayments received by the Town after the completion of the UDAG-funded activities as miscellaneous revenues.¹ The Town received HUD's close-out agreement on February 19, 1987 which specified that the eligible use for miscellaneous revenues was governed under HUD Title I.² Under the original agreement between HUD and the Town, money repaid by the Sagamore Hotel was to be considered miscellaneous revenues which the Town could use for HUD-eligible activities under Title I eligibility requirements. However, the reuse of UDAG loan repayment funds through other recycling mechanisms, such as revolving loan funds, is not subject to the provisions required for the use of these miscellaneous revenues.

In October 1990, HUD recommended that the Town develop a CD program to outline the activities eligible for using the UDAG repayment money. These policies and procedures should include guidelines for applying and approving any loans to area businesses and for Town capital projects to ensure that all UDAG repayment money is used for valid Town purposes and/or to promote economic development. The Board-adopted procedures should also provide guidance on setting loan interest rates and terms.

On September 1, 2009, the Board adopted the Bolton Community Development Program (BCDP) Operations Manual (manual) which authorized the use of the

1 HUD publication 6511.02 REV 1

2 Title 1 of the Housing and Community Development Act of 1974 established a program of community development block grants.

UDAG repayments as a revolving loan fund available to local businesses for economic development.³ The BCDP manual also authorized a Board-appointed advisory committee of five independent volunteers (Committee), who are responsible for reviewing loan applications to determine if they are eligible, meet the criteria of the loan program and in the opinion of the Committee are credit-worthy.

The BCDP manual contains the guidelines for the Committee to follow when determining if an applicant should be recommended to the Board to receive a loan from the UDAG repayments. If the Committee votes to accept the loan application, it is then submitted to the Board for their consideration and approval. The Board may accept or reject the advisory recommendation for loan approval. However, when the Committee determines a loan application is ineligible for the program, or for any reason determines that a loan application is not qualified for a recommendation of approval, the Board may not overrule the advisory recommendation.

The Board's Use of UDAG Repayments Was Not Consistent With the BCDP Manual

During our audit period, the Committee and the Board approved one local business loan⁴ for \$5,040, which was less than 1 percent of available loan funds. Instead of using the UDAG repayments as outlined in the BCDP manual, the Board authorized loaning approximately \$4.5 million⁵ from the CD fund for six Town capital projects. Although the Board approved all six loans by resolution, these loans were not consistent with the adopted BCDP manual. The six loans to Town funds for capital projects ranged from \$150,000 to \$2 million and were authorized at an annual interest rate of 1.385 percent for terms ranging from 8 to 29 years. Further, while the loan to the local business was governed by the BCDP manual, the Board did not develop any formal plans or policies, as recommended by HUD, to guide officials in approving the use of the repayments for Town capital projects. Without adequate plans and policies in place to guide Town officials and the Committee in determining what projects qualify and the amount and terms of the loans, funds may not be available on a revolving basis to fund future economic development for local businesses as originally intended by the Board.

³ The BCDP manual is posted on the Town's website along with the names of the current Committee members.

⁴ Four initial loan applications totaling \$577,000 were received by the Committee from local businesses, however only one local business completed the application process.

⁵ UDAG money available for Town and business loans include the original \$4 million plus loan interest paid and interest earned on checking, money market and certificates of deposit.

How Are UDAG Repayments Properly Recorded and Reported in the CD Fund?

The Supervisor should maintain complete, accurate and up-to-date accounting records of all loans made from the CD fund's revolving loan fund and the repayment of these loans, including interest. Specifically, all loan balances outstanding should be recorded as either a receivable or "due from other funds" in the CD fund with a corresponding liability recorded in the appropriate Town funds that borrowed funds in order to accurately report fund balances. Individual receivable control accounts for each loan should be maintained in the CD fund to track the outstanding loan balances. Principal and interest payments received from these outstanding loans should be recorded separately to distinguish the principal amount received, reducing the loan amount due and the amount of interest income earned from loaning money to other Town funds and local businesses.

It is also essential that the Supervisor provide the Board with financial information to effectively monitor the CD fund's loan activities and accurately report the CD fund's financial activity in the Town's annual report, also known as an annual update document (AUD), to the Office of the State Comptroller (OSC).

The Use of UDAG Repayments Was Not Adequately Recorded and Reported in the Financial Records

The CD fund's loan activity is not adequately recorded in the accounting records and reported to Town officials and the public. We found that all six loans made from the CD fund to other Town funds during our audit period totaling \$4.5 million were recorded in the accounting records as a one-time transfer of funds from the CD fund. These loans to Town fund balances are tracked off the books in separate amortization schedules and not included in the accounting records as a receivable in the CD fund and a liability in the borrowing fund.⁶

Annually, during budget development, the Board is provided loan amortization schedules which identify when principal and interest payments were made and the ending loan balances. However, the Board is not provided with information during the year to report when payments are made to the CD fund or documentation to verify the amortization schedules are accurate. To ensure the accuracy of the loan balances due to the CD fund, we traced the principal and interest payments from the amortization schedules to the amounts deposited in the CD fund's bank account for the years 2010 through 2016.⁷ We found the loan payments were properly made and recorded to the amortization schedule. As of December 31, 2016, outstanding loans to the CD fund totaled nearly \$3.6 million.

⁶ The loan repayments from the local business are properly recorded in the CD fund as community development fund income.

⁷ The 2017 payments were not yet made as of completion of our fieldwork.

Figure 1: CD Fund Loans Outstanding as of December 31, 2016

Outstanding Loans	Date Issued	Loan Term (Years)	Interest Rate	Due as of 12/31/2016
General Fund				
Rogers Park Pier	12/31/2009	18	1.39%	\$298,393
Cross Street Parking	12/1/2016	8	1.39%	\$150,000
Rogers Park Visitors Center	12/1/2016	29	1.39%	\$2,000,000
Water Fund				
Water Treatment Plant	12/31/2010	19	1.39%	\$776,111
Water Main Line Construction	12/31/2015	15	1.39%	\$187,770
Sewer Fund				
Sewer Trickling Filter	12/31/2012	16	1.39%	\$162,871
Total Loans Due From Town Funds				\$3,575,145
Loan Due From Local Business	5/1/2016	5	3.25%	\$4,963
Total Loans Due				\$3,580,108

Principal and interest repaid to the CD fund from other Town funds during our audit period included \$875,420 in principal and \$144,580 interest. In 2010, the general fund paid \$225,000 (\$214,266 principal and \$10,734 interest) to the CD fund and recorded these payments as an interfund transfer. The remaining \$795,000 was recorded as unclassified revenue in the CD fund for the years 2011 through 2016. The bookkeeper told us that these loans and repayments were recorded based on past practice.

As a result of recording these loans from the CD fund as one-time transfers, recorded as expenditures, rather than recording the outstanding loans as a receivable on the balance sheet, the CD fund balance as of December 31, 2016 was understated by nearly \$3.6 million in the accounting records and reports provided to the Board. The general, water and sewer fund balances were overstated by the loan amounts due to the CD fund because the corresponding liability was not recorded on the balance sheet of each fund. These inaccurate fund balances were also reported in the AUD filed with OSC for the Town's fiscal year-end December 31, 2016.

Although the Board authorized the initial amortization schedules, the Board was only provided with the loan balances due to the CD fund on an annual basis during the budget process. Without adequate accounting and reporting of outstanding loans through the use of receivable control accounts in the accounting records, Town officials are not able to adequately monitor the CD fund's year-end fund balance, funds currently available throughout the year and funds that are anticipated to be repaid in the current and future periods.

What Do We Recommend?

The Board should:

1. Adopt a policy to provide guidelines for loans made from the CD fund to other Town funds.
2. Maintain accounting records that include all of the loan activity of the CD fund to enable the Board to determine actual loan balances due to the CD fund from other Town funds and local businesses.
3. Ensure the accounting records and related reports include accurate information about loans receivable in the CD fund and outstanding debt in the funds that borrowed UDAG repayment funds.

Appendix A: Response From Town Officials

Assessor
644-2894
Justice Court
644-2202
Planning
644-2893



Supervisor
644-2461
Town Clerk
644-2444
Fax
518-644-2476

May 3, 2018

NYS Office of the State Comptroller
ATTN: Jeffrey P. Leonard, Chief Examiner
One Broad Street Plaza
Glens Falls, NY 12801-4396

Dear Mr. Leonard,

The Town of Bolton has received the draft audit report #2017M-216 entitled "Urban Development Action Grant Repayment Funds" for the period January 1, 2008 – May 31, 2017. The Town Board has reviewed the audit report, acknowledges and agrees with its recommendations. This letter serves as both an audit response and the required corrective action plan.

The Town's response to the key findings & recommendations and the corrective action plans are as follows:

1. Adopt a policy to provide guidelines for loans made from the CD fund to other Town Funds.

The Town Board adopted The Bolton Community Development Program Operations Manual on September 1, 2009 which guides the use of the UDAG repayments for local businesses, that manual was never intended to be utilized for the borrowing on Town projects. The Town Board will adopt a new guide for Town funded Projects that borrow from the CD fund.

2. Maintain accounting records that include all of the loan activity of the CD fund to enable the Board to determine actual loan balances due to the CD fund from other Town funds and local businesses.

We have been implementing this via loan amortization schedules that were adopted with Town Board resolutions when the borrowing for the funds was authorized. We plan to take the recommended corrective action in the accounting of these funds through a "due to / due from other funds" as opposed to the interfund transfer process that has been practiced since 2009.

3. Ensure the accounting records and related reports include accurate information about loans receivable in the CD fund and outstanding debt in the funds that borrowed UDAG repayment funds.

As stated above, we will work closely with the State Comptroller's Office to change the accounting of the UDAG CD borrowing for Town funded projects with a "due from other funds" correction ensuring the accuracy and completeness of reporting outstanding debt and Fund Balance.

On behalf of the Bolton Town Board, I would like to thank your office for the time and effort required to perform this audit and we appreciate the professionalism and assistance that we received during the audit process. Should you have any additional questions, please feel free to contact us at your earliest convenience.

Thank You,

Ronald F. Conover

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Appendix B: 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 objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and employees to gain an understanding of the Board's use of UDAG repayment money and the accounting for the loan transactions between Town funds.
- We obtained the amortization schedules for loans to Town funds and a Bolton area business and traced those loans to amounts authorized by the Board. We also recalculated the amortization schedules to determine that the balance due to the CD fund as of December 31, 2016 was correct.
- To verify that all loans from the CD fund to other Town funds and area Bolton businesses were accounted for, we recalculated the cash balances from January 1, 2008 through May 31, 2017 based on loans granted and expected principal and interest payments received. We also compared the principal and interest payments to the bank deposits on the CD fund bank statement. We compared the recalculated cash balances for all years to the accounting records and to bank statements and certificate of deposit advices.

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 objectives.

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.

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

Appendix C: Resources and Services

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/lgli/pdf/cybersecurityguide.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

Contact

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

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

www.osc.state.ny.us/localgov/index.htm

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

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