



# Town of Gorham

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## Budgeting

2023M-181 | June 2024

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# Report Highlights

## Town of Gorham

### Audit Objective

Determine whether the Town of Gorham (Town) Board (Board) adopted realistic budgets.

### Key Findings

The Board did not develop and adopt realistic budgets, a financial plan or fund balance and reserve policies. As a result, the Town maintained unreasonable fund balance levels and likely levied more taxes than necessary.

- From fiscal years 2020 through 2022, the Town-wide (TW) general, Town-outside-Village (TOV) general, TOV highway, sewer and water funds combined generated a total of \$1.6 million in operating surpluses.
- In 2021, sales tax revenues totaling \$230,000 were inappropriately recorded in the TW funds instead of the TOV funds, given property taxes were levied in the TOV funds.
- An excessive \$1.5 million of unrestricted fund balance was maintained in the TW general fund as of December 31, 2022.
- Budget transfers were made at year end, rather than as necessary throughout the fiscal year, resulting in appropriation accounts being over expended.

### Key Recommendations

- Use historical trends and/or other known factors to develop and adopt annual budgets that contain more accurate revenue and expenditure estimates.
- Develop a plan to reduce the amounts of excessive unrestricted fund balance in a manner that benefits Town taxpayers.
- Make timely budget transfers so that budget line items are not over expended.

Town officials agreed with our findings and indicated they plan to initiate corrective action.

### Audit Period

January 1, 2020 – December 6, 2023

### Background

The Town is located in Ontario County (County). The Village of Rushville is partially located within the Town. The Town provides services to its residents including street maintenance, water, sewer and general government support.

The Town is governed by an elected five-member Board, which is composed of four Board members and the Town Supervisor (Supervisor). The Board is responsible for the general oversight of the Town's operations and finances, including adopting and monitoring the budget, and establishing financial policies. The Supervisor is the chief executive and financial officer, as well as the budget officer, and is responsible for day-to-day financial operations.

#### Quick Facts

Total 2023 Appropriations	\$5.3 million
Total Unrestricted Fund Balance as of December 31, 2022	\$3.6 million
Population	4,111

# Budgeting

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## How Does a Board Effectively Budget and Manage Town Finances?

A town board (board) is responsible for adopting realistic budgets, based on historical trends and other known factors, to help ensure that recurring revenues finance recurring expenditures. Once the budget has been adopted, the board should monitor actual revenues and expenditures to identify variances and, when needed, take appropriate action to make budget transfers. If there are insufficient appropriations, a budget transfer moves funds from one appropriation account to another to avoid overdrawing the account. The board is responsible for monitoring expenditures to ensure they stay within appropriations and for reviewing budget status reports to determine whether significant variances exist.

Fund balance, which represents the difference between revenues and expenditures accumulated over time, can be an important financing source. Maintaining a reasonable level of fund balance can provide a cushion for unforeseen expenditures or revenue shortfalls. A board must assess what would be considered reasonable for their particular situation and adopt a written fund balance policy that addresses the appropriate levels of fund balance to be maintained in each fund from year to year. The board should use the policy as a guideline during the budget process to properly manage fund balance. When fund balance is appropriated to finance expenditures, the expectation is that there will be a planned operating deficit financed by the appropriated fund balance. However, routinely appropriating fund balance that will not actually be used misleads taxpayers and results in increasing fund balances.

Additionally, 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 fund balance to finance annual operations. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment or other needs. The board should adopt a written policy that communicates to taxpayers why the money is being set aside, the intent for the reserves, and optimal funding levels. Amounts to be placed in reserves should be included in the annual budget, as this increases transparency and allows taxpayers to know the board's plans.

## The Board Adopted Unrealistic Budgets

The Town has five main operating funds including the TW general, TOV general, TOV highway, sewer and water. We compared estimated revenues and appropriations to actual revenues and expenditures for the 2020 through 2022 fiscal years. During that period, the five main operating funds combined generated a total of \$1.6 million in operating surpluses. The TW general, TOV general and TOV highway funds accounted for most of these operating surpluses, totaling \$1.4 million (89 percent).

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[M]ultiyear 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 fund balance to finance annual operations.

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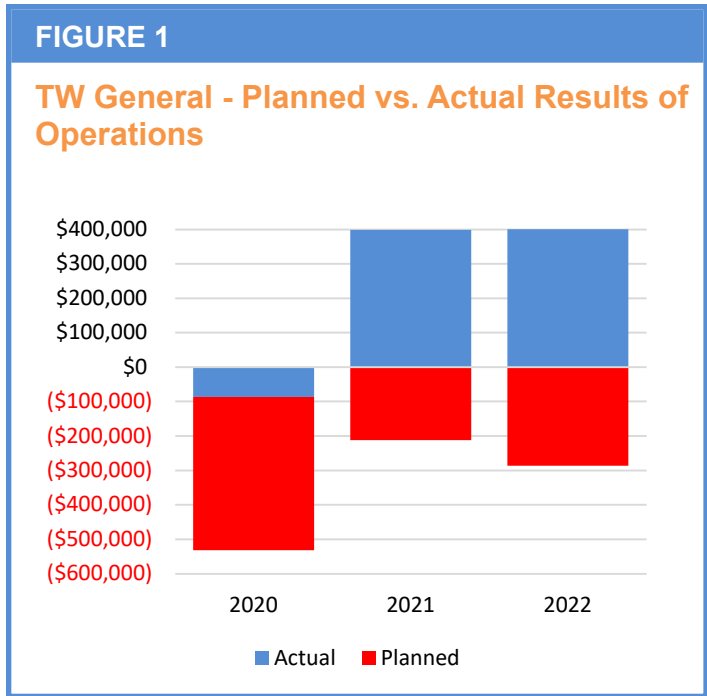
TW General – The Board consistently underestimated revenues and overestimated expenditures, which resulted in combined operating surpluses totaling \$713,062, rather than planned operating deficits totaling \$942,918 (Figure 1).

The Board underestimated sales tax revenues in the TW general fund, resulting in \$1 million in additional revenues received from 2020 through 2022. The Board also consistently underestimated mortgage tax revenues by a total of approximately \$204,000 during the audit period. Two Board members stated that the Board adjusts estimates annually based on historical trends. However, this did

not occur other than some marginal increases. Two Board members stated the Board was reluctant to make significant increases to these line items because the Board could not be certain what the Town would receive from these sources, as they were dependent on sales. While in 2020 and 2021, the COVID-19 pandemic added budgetary challenges, in 2022 and 2023, sales tax revenues continued to increase. However, the Board did not increase budget estimates at the same rate. As a result, as of November 30, 2023 (the last completed monthly financial report available prior to the end of our audit fieldwork), the Town had already more than doubled its budgeted sales tax revenues for the year.

Expenditures in the TW general fund were overestimated overall, rather than any specific individual accounts. Furthermore, the Board annually appropriated fund balance as a financing source from 2020 through 2022, totaling \$942,918. However, the unrealistic revenue and expenditure estimates resulted in an operating deficit that was less than planned in 2020 and operating surpluses in 2021 and 2022. As a result, the Town only used \$86,866 (9 percent) of the appropriated fund balance during the audit period.

TOV General Fund – While the Board appropriately budgeted appropriations, it consistently underestimated revenues in the TOV general fund. This resulted in combined operating surpluses totaling \$265,615. The Board’s budgeting practice for sales tax revenues in this fund was the sole cause of this variance, with actual sales tax revenues being \$265,154 (42 percent) more than budgeted from 2020 through 2022. Two Board members stated that the Board budgeted



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for sales tax revenues based on historical trends, but it was difficult to know how much the Town would receive annually. While the Board made some adjustments to sales tax revenue estimates in the budget during the audit period, these increases did not align with the historical trends and rates. Additionally, in 2021 the Board implemented a real property tax levy in this fund of \$30,000, but the Board and Supervisor continued to budget for and record part of the sales tax revenues received in the TW general fund. This was an inappropriate budgeting and accounting practice because these funds should have been accounted for in the TOV funds. New York State Tax Law Section 1262 provides that the Town must first use the sales tax proceeds it receives to benefit the area outside of the Village (TOV funds), when the Village also receives a portion of sales tax. Doing so will ensure equity among taxpayers and that only necessary taxes are being raised.

TOV Highway Fund – The Board consistently underestimated revenues during the entire period reviewed, while it overestimated expenditures in 2020 and underestimated them in 2021 and 2022. Due to the inaccurate budgeting in this fund, the Town experienced net operating surpluses totaling \$414,648 during this three-year period, rather than realizing the planned operating deficits totaling \$390,413. This resulted in no appropriated fund balance being used.

From 2020 through 2022, underestimated revenues from the Consolidated Highway Improvement Program (CHIPs) were the primary cause of the significant revenue variance. This was due to additional road work performed by the highway department during these years, which the Town received additional reimbursement for, and for which the reimbursements lapsed fiscal years. This made it appear that additional funds were received in the subsequent year, when the funds were for work already performed. The Board and Town officials should have been aware of this timing difference and budgeted more appropriately. The Board also implemented a \$200,000 real property tax levy in this fund in 2021. However, the Board and Supervisor continued to budget for and record sales tax revenues in the TW general fund in 2021. This was an inappropriate budgeting and accounting practice because these funds should have been accounted for in the TOV funds as previously discussed.

Sewer Fund – The Board consistently underestimated revenues and overestimated expenditures from 2020 through 2022, which resulted in combined operating surpluses totaling \$98,105 instead of planned operating deficits totaling \$65,440. Sewer rents were the most significant items underestimated during this period, which were underestimated between 9 to 17 percent, totaling \$47,548. Additionally, the appropriations for sewage treatment/disposal (equipment and contractual) were both significantly and consistently overestimated, totaling \$32,085 (64 percent) and \$44,314 (63 percent), respectively. The Supervisor stated that expenditures vary depending on treatment needs and requirements each year; therefore, budgeting is typically kept consistent and conservative.

However, absent any anomalies in prior years, the Board should be able to use historical trends as a benchmark to more accurately budget for these items.

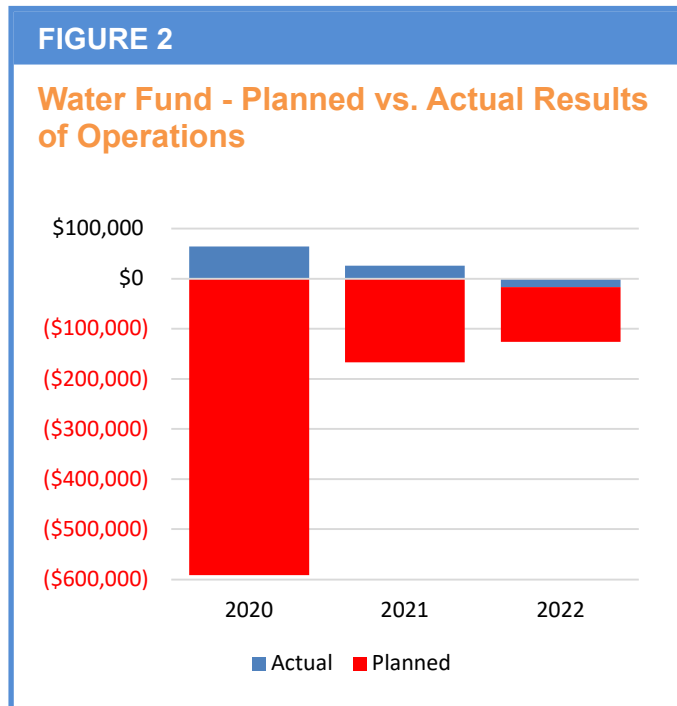
Water Fund – The Board budgeted reasonably for water fund revenues but overestimated expenditures in 2020 and 2021. Overall, this resulted in a combined operating surplus from 2020 through 2022 totaling \$72,468, rather than planned operating deficits totaling \$867,743 (Figure 2).

The transmission/distribution (capital outlay) account was overestimated in 2020 and 2021 by a total of \$575,000 and accounted for most of the expenditure variance. The Supervisor and Chief Water/Wastewater Operator informed us that officials put the water line replacement plans on hold in these years, as the Town was made aware of significant upgrades needed at the water treatment plant.

Furthermore, the Board annually appropriated fund balance as a financing source from 2020 through 2022, totaling \$867,743. However, the Board’s use of unrealistic budgeting estimates resulted in operating surpluses in 2020 and 2021, and an operating deficit that was significantly less than what the Board planned in 2022. This resulted in the Town only using \$16,798 (2 percent) of the appropriated fund balance.

While budget variances are expected and may be understandable, when the Board consistently underestimates revenues or overestimates expenditures, it does not provide transparency to the taxpayers during the budget process, and taxpayers may pay more taxes than necessary. As such, taxes levied in the TW general fund in 2021, 2022 and 2023 totaling \$1.2 million were likely unnecessary because of the excessive fund balance in this fund and consistent annual operating surpluses.

Based on our review of Town financial statements through November 30, 2023, it is likely that revenues in the TW general fund will be significantly overestimated and expenditures underestimated again by year end 2023, resulting in another



operating surplus and further increase to fund balance in this fund. Additionally, budget trends in the TOV general, TOV highway, sewer and water funds were also consistent with past practices. The Board adjusted estimates for sales tax revenues in all funds in the 2024 adopted budget to more closely align with historical actual amounts. However, while the Board adjusted certain appropriations in the 2024 adopted budget, these adjustments were conservative and likely will not yield different results than past practices.

### The Board Did Not Establish a Comprehensive Financial Plan or Fund Balance and Reserve Policies

The Board did not develop or adopt a written comprehensive financial plan projecting operating and capital financial goals and intentions for the Town for a three- to five-year period. Additionally, the Board did not develop or adopt a written fund balance or reserve fund policy to determine needed amounts for fund balance and specific reserves and establish plans for periodically reviewing these funds. Consequently, the operating surpluses for the TW general, TOV general, TOV highway, sewer and water funds have been accumulated primarily as unrestricted fund balance during the audit period and may be excessive (Figure 3).

**Figure 3: Unrestricted Fund Balance (FB) at Year End**

	2020	2021	2022
<b>TW General Fund</b>			
Total Unrestricted FB at Year End	\$742,818	\$1,116,721	\$1,491,206
Next Year's Appropriations	\$1,156,333	\$1,310,860	\$1,380,416
Unrestricted FB as a % of Next Year's Appropriations	64%	85%	108%
<b>TOV General Fund</b>			
Total Unrestricted FB at Year End	\$202,264	\$389,349	\$276,829
Next Year's Appropriations	\$200,234	\$367,453	\$485,602
Unrestricted FB as a % of Next Year's Appropriations	101%	106%	57%
<b>TOV Highway Fund</b>			
Total Unrestricted FB at Year End	\$728,451	\$910,373	\$1,036,646
Next Year's Appropriations	\$1,521,305	\$1,867,234	\$2,215,835
Unrestricted FB as a % of Next Year's Appropriations	48%	49%	47%
<b>Sewer Fund</b>			
Total Unrestricted FB at Year End	\$171,715	\$211,173	\$271,707
Next Year's Appropriations	\$152,264	\$155,539	\$154,146
Unrestricted FB as a % of Next Year's Appropriations	113%	136%	176%
<b>Water Fund</b>			
Total Unrestricted FB at Year End	\$887,827	\$455,201	\$522,854
Next Year's Appropriations	\$800,542	\$741,845	\$695,883
Unrestricted FB as a % of Next Year's Appropriations	111%	61%	75%



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The Supervisor told us that he and the Board discuss long-term financial planning and fund balance levels. However, he said they did not formalize these discussions into documented plans or policies because the Town has historically been in good financial condition, and total fund balance has never been reduced to what the Board would consider low levels. However, the Supervisor told us he saw the merits in having such plans and policies in place. Adoption of these plans and policies would also provide transparency to taxpayers and provide valuable information to develop realistic budgets.

Without comprehensive written multiyear financial plans, and fund balance and reserve policies, it is difficult for the Board to properly manage the Town's fund balance. Also, without these plans and policies, it would be difficult for the Board to assess alternative approaches to financial issues, such as accumulating unrestricted fund balance or using fund balance to finance annual operations.

### **Budget Transfers Were Not Made in a Timely Manner**

Budget transfers were typically made at year end, either in December of the current fiscal year or January of the subsequent fiscal year. While the Supervisor and Board members receive budget to actual reports monthly and said that they discuss budget transfers prior to this time, the actual transfers were not formally approved by the Board and made until the end of the year. The Supervisor stated that this is a historical practice, and when the budget transfers are made usually depends on when officials have time to prepare the resolution for Board approval. Ultimately, because the Board was unaware of statutory budget requirements under New York State Town Law Section 119 for appropriations to be available before an expenditure can be made, appropriation accounts were sometimes overdrawn because budget transfers were not made in a timely manner, resulting in year-end transfers totaling \$404,501 in 2021 and \$726,176 in 2022. In addition, we also identified 28 accounts totaling \$451,280 which were overdrawn as of November 30, 2023, for which an appropriate budget transfer had not yet been made or approved by the Board.

The budget represents the Town's financial plan. Appropriations are established to control spending and ensure that resources are available for planned expenditures. Over expending appropriation accounts defeats the budgetary process.

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

The Board should:

1. Develop and adopt annual budgets that contain reasonable estimates of revenues and expenditures based on historical trends and/or other known factors, such as intended appropriations of fund balance.

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2. Develop and adopt budgets that properly allocate sales tax revenues to the appropriate funds.
  3. Develop a plan to repay the TOV funds for sales tax revenues that were improperly recorded in the TW general fund.
  4. Develop, adopt and routinely update a comprehensive written multiyear financial plan, and use this plan in the budget development process.
  5. Develop, adopt and routinely update comprehensive written fund balance and reserve policies.
  6. Develop a plan to reduce the amounts of unrestricted fund balance determined to be excessive in a manner that benefits Town taxpayers. Unrestricted fund balance can be used as a financing source for:
    - a. Funding one-time expenditures;
    - b. Funding needed reserves;
    - c. Reducing property taxes; and
    - d. Paying off debt.
  7. Ensure that budget transfers are made in a timely manner so that budget line items are not over expended.

# Appendix A: Response From Town Officials

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## **TOWN OF GORHAM**

*Dale C. Stell, Supervisor*

4736 South Street. - PO Box 224 – Gorham, NY 14461

Phone: 5895-526-6317 ext. 2 Fax: 585-526-4799

TDD 1-800-662-1220 (For Hearing Impaired)

supervisor@gorham-ny.org

April 12, 2024

Office of the State Comptroller  
Division of Local Government and School Accountability  
Rochester Region  
16 West Main Street Suite 522  
Rochester, NY 14614  
Attn: [REDACTED]

Dear [REDACTED]:

Regarding the draft findings of the Town of Gorham Budgeting audit, I am in complete agreement with your findings. In fact, we have begun to take recommended corrective action.

Sincerely,

Dale C Stell  
Town Supervisor

cc: Susan Cummings, Bookkeeper  
Darby Perrotte, Town Clerk

Town of Gorham is an equal opportunity provider, and employer. To file a complaint of discrimination, write: USDA, Director, Office of Civil Rights, Washington, D.C. 20250-9410, or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

## Appendix B: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed officials and reviewed Board meeting minutes to gain an understanding of the Town's budget development and monitoring processes and to determine whether the Board adopted multiyear plans, and fund balance or reserve fund policies.
- For fiscal years 2020 through 2022, we compared budget estimates to actual results to determine whether budgets were reasonable. We reviewed variances in the five main operating funds to determine which individual revenue and appropriation estimates had the largest variances. We then interviewed officials to determine the cause of significant variances.
- We reviewed the 2023 budget and year-to-date operating results, through November 30, 2023, and estimated what operating results would be at year end to determine whether the Town's budgeting practices were consistent for the current fiscal year.
- We reviewed monthly Board meeting packets to determine whether the Board was provided with budget status information and updates.
- We assessed year-end fund balance amounts for the five main operating funds for 2020 through 2022, including the appropriation of fund balance during these years.
- We obtained budget transfer reports and reviewed Board meeting minutes to determine when budget transfers were made and whether they were Board-approved.
- We reviewed the 2024 adopted budget to determine whether the Board made adjustments to budgeting practices compared with prior years.

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.

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

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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 Town Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf](http://www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf)

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

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

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

[www.osc.ny.gov/local-government/fiscal-monitoring](http://www.osc.ny.gov/local-government/fiscal-monitoring)

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

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

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

[www.osc.ny.gov/local-government/resources/planning-resources](http://www.osc.ny.gov/local-government/resources/planning-resources)

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

[www.osc.ny.gov/files/local-government/publications/pdf/cyber-security-guide.pdf](http://www.osc.ny.gov/files/local-government/publications/pdf/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.ny.gov/local-government/required-reporting](http://www.osc.ny.gov/local-government/required-reporting)

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

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

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

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## Contact

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
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<https://www.osc.ny.gov/local-government>

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

**ROCHESTER REGIONAL OFFICE** – Stephanie Howes, Chief of Municipal Audits

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