



Plattekill Public Library

2047 Rt. 32 Modena, New York, 12548

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August 11, 2017

Via 1st Class Mail and E-mail (.pdf)

Ms. Tenneh Blamah, Chief Examiner
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, New York 12553

Re: *Response to Draft Report of Examination and Corrective Action Plan*
2017M-95 – Period Covered: January 1, 2016 – February 16, 2017

Dear Ms. Blamah:

On behalf of the Plattekill Library (the “Library”), please accept this letter as the Library’s Board of Trustees’ formal response to, and corrective action plan for, the findings and recommendation contained in your office’s draft Report of Examination (“Draft Report”), conveyed to us by e-mail.

First and foremost, we wanted to take this opportunity to thank you and your staff for the diligence and professionalism exhibited during the course of the examination. Specifically, we extend our gratitude to your on-site examiners who approached the process with thoroughness, but were willing to work cooperatively with our employees to minimize disruptions to our day-to-day operations. We also appreciate your office’s willingness to discuss the details of the draft findings during the exit interview held on August 2, 2017.

As was discussed at the exit interview, the Board of Trustees and the Library’s Director are in complete agreement that sound budgeting is a central goal for the Library to help us assure that the Library’s community-based resources are protected and preserved. Moreover, the Board of Trustees, the Director, and the Library’s Treasurer have thoroughly reviewed the Draft Report and we agree with and accept many of the findings and recommendation contained therein. We are committed to refining our practices and procedures to bolster our budgeting process. However, as set forth below, we do not agree with some of the characterizations in the report that suggest that our budgeting process is flawed. While we acknowledge that some of our processes may not be consistent with the practices that OSC staff described for us, our Board is actively involved in the management and oversight of the Library’s financial operations, and has a clearly planned and proper use for the Library’s fund balance. As such, we regard certain portions of the report to be unduly critical of our oversight and are disappointed that the draft report did not more favorably reflect the Library’s explanations for the variances in revenues and expenditures.

INTRODUCTION

We have no substantive comments on the Introduction except to note that the Library is located in the Town of Plattekill, not the “Town of Modena” as referenced in the Background section.¹ Also, we believe that the description of the audit and its scope and objectives, contained in the Appendix on “Audit Methodology and Standards” (Appendix B in the Draft Report) is a more detailed and fully-informative statement of the objectives of the audit and the scope of examination. We believe the language in Appendix B conveys a fuller sense of the thoroughness and expansiveness with which your staff approached the examination.

We acknowledge the Board of Trustees’ obligation to draft and implement a corrective action plan in accordance with your final report and we hope that our efforts, as itemized in this response, will be deemed to meet this obligation. We intend that this response will be treated as our Corrective Action Plan and if further action is needed, please let us know.

BUDGETING PRACTICES

The Draft Report’s central finding is that the Board “has consistently underestimated revenues and overestimated expenditures in its budgets over the past four years.” We believe that this statement overstates the reality of the variances in the Library’s budgeting, and ignores several key factors that explains some of the information upon which the Draft Report bases its concerns.

Revenues

Turning to Figure 1, although an average revenue variance of 6.62% overall is highlighted, we note that fiscal years 2013 and 2014 show budget to actual variances of only 2.6% each year. We view this variance as non-material, particularly because the variances were primarily due to unanticipated and hard to forecast revenues from bank interest, library fines, and state aid. As we explained during the course of the examination process, Library staff has erred toward not budgeting revenues in these categories due to their historically-low magnitude and the lack of a clear methodology for developing a sound estimate.

The budget to actual variance for the 2015 year was 10.5% or \$45,918. The reason for the increase in actual over budget amount was due to the receipt of grant funds that were applied for through Senator Larkin and the First Book Grant. The Library chose not to budget for these grants during the development of the budget because we were not confident that the grants would be received in the relevant period. Notably, we were not notified that the Library was approved for the grants until they were received during the 2015 year. Moreover, the book grant was received in the form of free books that were distributed to the community. A journal entry was made for financial reporting purposes to record the retail cost of the books (\$25,061) as revenue, and a corresponding entry was made to record the disbursement as an expense. No cash was received from this grant and, therefore, the non-cash grant was never available to fund operating

¹ Modena is an unincorporated hamlet within the Town of Plattekill.

expenses. As such, we think a more accurate portrayal of the 2015 revenue variance would be as follows:

\$45,918 OSC listed variance in figure 1 (underage)
- 10,000 Larkin Grant
- 25,061 First Book grant received in the form of books
= **\$ 10,857.00 actual variance from our revenue budget (or 2.6%)**

Next, according to the Draft Report, the budget to actual variance for the 2016 year was also 10.5% or \$46,019. In 2016, we also received unanticipated, additional grants from the Mid-Hudson Library System for teen programs, early literacy, and outreach to special populations, and again received the Larkin grant, and the First Book Grant. The retail cost of the grant books for 2016 was \$19,631. In light of the receipt of these unexpected grant funds, we believe a more accurate portrayal of our 2016 revenue variance would be as follows:

\$46,019 listed revenue variance (underage)
- 10,000 Larkin Grant
- 19,631 First Book grant received in the form of books
- 500 Stewarts grants
- 1,363 Mid-Hudson Library system mini-grants
= **\$ 14,525 (or 3.0%) actual variance from our revenue budget.**

Again, we maintain that revenue variances of only 2.6% and 3% are non-material.

Using these revised figures, we believe a more accurate representation of our budget to actual revenue variance for 2013 to 2016 would be \$47,222.00, or 2.6%, as opposed to the \$113,777.00 or 6.62% stated in the OSC's audit (an average of \$11,805.00 per year).

Expenditures

In comparing budgeted appropriations to actual expenditures, the Draft Report also stated that the Library overstated expenditures in five categories, totaling \$398,908 in overstated but under spent expenditures over the same four-year period. The Library maintains that its actual overestimation during this period for the categories stated is actually \$120,644, 69.8% less than the amount the Draft Report asserts.

We believe that the bulk of this difference is explained by the method of budgeting used by the Library – placing anticipated expenditures in broad expenditure categories that differ from the more detailed lines than the Draft Report utilizes. In summary, while the Library's budgeting practice is, admittedly, less detailed than larger government entities (such as a school district or town), the Library feels that the major divisions used by the Library have been adequate for its budgeting needs. Moreover, when budgeted expenditures are compared to actual expenditures using the Library's methodology, the total four-year variance drops from \$398,908 to \$120,644. The following paragraphs detail our disagreement with the findings in figure 2 of the Draft Report, and are presented in a revised table form below.

The Library’s budget consists of a minimal number of major category line items which both the Board and the public votes on. For example, the Library’s division “Library Materials” includes books, DVDs, periodicals, music CDs, e-books, audio books, board and video games, and other “borrowable” items. That line, referenced in the Library’s budget (and *voted on* by the Board) is for the total expenditure for all types of materials, the respective proportions of which may change with collection needs, changes in culture, physical space concerns, grant funding, and other variables. Budgeting by line item would restrict our ability to respond in a timely fashion to the changing needs of the community and *is not required by law for libraries, as it is for school districts*.

In calculating overestimated appropriations (figure 2 in the Draft Report), our major category “total” line item for the budget categories, “Library Materials,” “Library Operations,” and “Building” were not included, painting an inaccurate representation of our budget variances. Once the “total” line items (i.e., our official budget line items) are included, our total variance for these categories from 2013 to 2016 is as follows:

Library Materials: a variance of \$95,918, as opposed to OSC’s figure \$159,000.

Library Operations: a variance of \$13,319, as opposed to \$144,088.

Staff Payroll: a variance of \$-2,701 as opposed to \$50,744

Building Expenses: a variance of \$5,178 as opposed to \$36,136.

The following table summarizes the analysis using the aggregated actual expenditures from the Library’s “total” divisions, which are not accounted for in the Draft Report’s Figure 2.

Library Materials - Total²			
	Budgeted	Actual	Variance
2013	\$44,000.00	\$22,768.00	\$21,232.00
2014	\$44,000.00	\$16,771.00	\$27,229.00
2015	\$41,000.00	\$11,037.00	\$29,963.00
2016	\$30,000.00	\$12,506.00	\$17,494.00
Totals			\$95,918.00

Library Operations - Total			
	Budgeted	Actual	Variance
2013	\$40,400.00	\$37,730.00	\$2,670.00
2014	\$40,400.00	\$44,477.00	-\$4,077.00
2015	\$43,310.00	\$40,468.00	\$2,842.00
2016	\$51,063.00	\$39,179.00	\$11,884.00
Totals			\$13,319.00

² Materials spending has been lower than budgeted due, in part, to a current limitation on space for new materials. Library staff is considering better ways to deploy these resources more effectively in the coming year.

New York State Retirement			
	Budgeted	Actual	Variance
2013	\$40,000.00	\$44,466.00	-\$4,466.00
2014	\$49,000.00	\$41,401.00	\$7,599.00
2015	\$40,000.00	\$43,736.00	-\$3,736.00
2016	\$50,000.00	\$40,458.00	\$9,542.00
Totals			\$8,939.00

Staff Payroll (gross)			
	Budgeted	Actual	Variance
2013	\$236,000.00	\$221,055.00	\$14,945.00
2014	\$221,990.00	\$234,642.00	-\$12,652.00
2015	\$239,682.00	\$248,085.00	-\$8,403.00
2016	\$252,610.00	\$249,210.00	\$3,400.00
Totals			-\$2,710.00

Building- Total			
	Budgeted	Actual	Variance
2013	\$12,000.00	\$10,376.57	\$1,623.43
2014	\$12,000.00	\$7,589.30	\$4,410.70
2015	\$12,136.00	\$7,585.00	\$4,551.00
2016	\$0.00	\$5,407.00	-\$5,407.00
Totals			\$5,178.13

Total 4-year Variance \$120,644.13

In short, this is a categorization issue, not a fundamental underestimation of our expenditures as the Draft Report suggests. While we agree that it can be solved by the use of more detailed budgeting lines that directly align with the expenditure categories in QuickBooks, the examination staff could not point to any legal or accounting obligation applicable to the Library that demonstrated that the Library’s use of the broader categories for expenditure budgeting was improper. The Library will, nevertheless, develop a budget methodology with greater detail.

Fund Balance

Although the Draft Report acknowledges that the Board has already created a contingency fund policy and has also designated a portion of the fund balance as a “capital reserve fund,” it still suggests that a “high fund balance can indicate that the level of taxation is too high and probably should be reduced.” We respectfully disagree that the level of taxation for the Library is too high. As was explained to OSC staff during the examination, the majority of the fund balance has been designated to a planned capital project (in excess of \$200,000) and we do not believe that the remaining fund balance, which is subject to our contingency fund policy,

and which, at roughly \$150,000 represents one-third of our annual budget, is excessive. Not only is this amount available for unanticipated events, it also serves as a fund to cover operations at those times of the year where tax revenues have been levied, but not yet collected. In short, we believe the fund balance reflects sound fiscal management more than intentional over taxation.

RECOMMENDATION

Recommendation: The Board should: 1. Develop and adopt budgets that include realistic estimates for revenues and expenditures based on all information available at the time. 2. Use surplus funds as a financing source for: funding one-time expenditures, funding needed reserves, reducing property taxes.

With respect to item “1.,” the Board believes that the budgets it adopted and developed for 2013 through 2016 included “realistic estimates for revenues and expenditures based on all information available at the time,” and it agrees that continuing to do this is critical to its fiduciary role. As noted above, the Board has not included revenue estimates for certain categories (interest, fines/fee, grants, etc.) in past budgets unless it could be reasonably assured that the revenues would be recognized in a specific amount. However, we acknowledge the point made by OSC staff that budgeting nothing for grants, fines/fees, and interest when we know that revenues will be likely be received in those categories, is something that we can and should avoid in the future because of the likelihood that it will lead to budget variances. We will, therefore, make an effort to reasonably estimate these revenues in future budgets.

Regarding item “2.,” the board appreciates and accepts the OSC staff suggestion that it can and should budget for long-term needs by including lines in its budgets for items like capital fund contributions, repair contingency funds, etc. Although we have been advised by counsel that we are not required to utilize statutory reserve funds required of school districts and other municipalities, we acknowledge that transparency will be enhanced if our budget expressly states that revenues will be assigned to growth contingency funds and restricted funds for specific purposes. To that end, the Library has prepared budget revisions for the current fiscal year and for fiscal year 2018, which will expressly account for “surplus” funds by assigning them to fund various library operations and eliminate the need for any requested increase in the tax levy in 2018.

Corrective Action Plan:

1. Commencing with the next budget cycle, the Board will include reasonable estimates in its budget for all revenue categories in which it has customarily recognized revenues.
2. Commencing with the next budget cycle, the Board will attempt to include expenditure lines that account for the moneys that have otherwise moved to undesignated fund balance at the ends of the fiscal year. While we have already designated certain portions of the fund balance and restricted certain funds after they

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have accrued (for proper purposes, such as a planned capital project), we acknowledge that we can do some of this work prospectively during the budget formulation process.

3. The Board will ask the Treasurer to make greater use of detailed line-items in future budgets. Although we have some apprehension that doing so increase the work load on our part-time staff, we are willing to explore expanded use of these detailed budget categories in the future.

In closing, we remain committed to being responsible and compliant stewards of the Library's assets and are pleased that, after OSC staff spent several weeks doing its examination, the report found no issues other than these limited concerns regarding our budgeting process.

Thank you for the opportunity that this exercise has given us to consider ways to enhance our stewardship.

Very truly yours,

Lynne Ridgeway
President of the Board of Trustees

cc: Board of Trustees
John Georghiou, Library Director
Barbara Jacobini, Treasurer