



# Town of Schuylers

## Financial Management

### Report of Examination

Period Covered:

January 1, 2013 — December 31, 2013

2014M-182



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

August 2014

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 Schuyler, entitled Financial Management. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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

# Introduction

## **Background**

The Town of Schuyler (Town) is located in Herkimer County and has a population of approximately 3,400. The Town provides various services to its residents including street maintenance, fire protection, sewer and general government support. The Town's budgeted appropriations for the 2014 fiscal year were approximately \$1.6 million, funded primarily with real property taxes, sales tax and State aid.

The Town is governed by an elected Town Board (Board), which comprises a Supervisor and four Board members. The Board is responsible for the general management and control of the Town's financial and operational affairs. The Board is also responsible for adopting and monitoring the budget and ensuring the Town's sound financial position. The Supervisor is the chief fiscal officer and is responsible for maintaining the accounting records and preparing financial reports. The Supervisor delegates these duties to a contracted bookkeeper.

## **Objective**

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

- Did the Board adopt realistic budgets and maintain reasonable fund balances?

## **Scope and Methodology**

We evaluated the Town's financial management from January 1 through December 31, 2013. We expanded the scope of our audit back to January 1, 2011 to analyze prior years' financial trends.

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

## **Comments of Local Officials and Corrective Action**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials agreed with our recommendations and indicated they planned to initiate correction action.

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

CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

# Financial Management

A basic component of local government budgeting is the prudent use of fund balance, which is the difference between revenues and expenditures accumulated over time. The Board should adopt a policy to govern the level of fund balance maintained in each fund and long-term plans that set forth the Town's financial objectives and goals. In addition, the Board should adopt budgets that include realistic estimates of revenues and expenditures and use surplus fund balance as a funding source, when appropriate.

The Board has not established adequate policies and procedures for providing guidance on maintaining a reasonable level of fund balance. As a result, the Town has accumulated excessive fund balances in the general fund and sewer district fund that resulted, at least in part, from unrealistic budget estimates. In addition, the Board has not developed a long-term financial or capital plan or established reserves to help address the Town's future needs.

## Excessive Fund Balance

Fund balance represents moneys accumulated from prior fiscal years. Town officials can legally set aside, or reserve, portions of fund balance to finance future costs for a specified purpose<sup>1</sup> and to help finance the next year's budget (appropriated fund balance). In addition, the Town may retain a reasonable portion of fund balance, referred to as unrestricted, unappropriated fund balance, to use as a financial cushion in the event of unforeseen financial circumstances. Each local government needs to assess what is reasonable for its particular situation considering various factors such as the timing of receipts and disbursements, volatility of revenues and expenditures and contingency appropriations. If fund balance is kept at excessively high levels, moneys that could benefit the Town are not being used, thereby placing an unnecessary burden on the taxpayers. It is important that the Board adopt policies and procedures to govern the level of fund balance to be maintained in each fund.

The Board has not adopted policies and procedures to govern the level of fund balance to be maintained. As a result, the Town has accumulated excessive fund balance in the general fund and sewer district fund.

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<sup>1</sup> Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment and other allowable purposes. Reserve funds are classified as restricted fund balance.

**Table 1: Unrestricted, Unappropriated Fund Balance as a Percentage of the Next Year's Budget**

Year End	General Fund		Sewer District Fund	
2011	\$637,390	92%	\$100,355	687%
2012	\$747,203	114%	\$101,321	756%
2013	\$867,674	132%	\$103,950	782%

At current spending levels, the unrestricted, unappropriated fund balance in the Town's general fund would cover more than a full year's appropriations. The sewer district fund has enough unrestricted, unappropriated fund balance to cover more than seven years' appropriations. These excess funds are more than necessary for a financial cushion and can result in taxpayer moneys lying idle rather than being used productively.

General Fund – The Board appropriated fund balance in the general fund for the 2011 through 2013 budgets; however, due to underestimating revenues and overestimating expenditures, the general fund had operating surpluses each year. As a result, the Town did not use the fund balance appropriated and the unrestricted, unappropriated fund balance continued to increase. While it is prudent to maintain adequate fund balance to protect against unforeseen circumstances or budget conservatively, maintaining a substantial fund balance in addition to budgeting conservatively may result in taxes being higher than necessary. Table 2 shows the general fund's results of operation over the last three years.

**Table 2: General Fund - Budget-Versus-Actual and Operating Results**

	2011	2012	2013
<b>Revenues</b>			
Budgeted Revenues	\$568,638	\$549,806	\$548,152
Actual Revenues	\$703,252	\$673,705	\$715,292
Variance	\$134,614	\$123,899	\$167,140
Variance Percentage	24%	23%	30%
<b>Expenditures</b>			
Budgeted Appropriations	\$701,638	\$690,606	\$653,152
Actual Expenditures	\$689,695	\$599,692	\$606,327
Variance	\$11,943	\$90,914	\$46,825
Variance Percentage	2%	13%	7%
<b>Surplus</b>			
<b>Operating Surplus</b>	\$13,557	\$74,013	\$108,965
Planned Deficit (Appropriated Fund Balance)	(\$133,000)	(\$140,800)	(\$105,000)
<b>Total Variance</b>	<b>\$146,557</b>	<b>\$214,813</b>	<b>\$213,965</b>

The Town had operating surpluses instead of the planned operating deficits that the appropriation of fund balance should generate. Consequently, fund balances were increased instead of being reduced to the levels represented in the adopted budgets. Therefore, the Board gave the impression that it planned to reduce fund balance, but the consistent budget inaccuracies generated annual operating surpluses and allowed the Town to continue to maintain and grow its excessive fund balance.

Sewer District Fund – The sewer district fund has consistently maintained unrestricted, unappropriated fund balance in excess of \$100,000 during our audit period. Expenditures consist primarily of debt service payments.<sup>2</sup> For example, total expenditures in 2013 were \$13,151 including \$12,900 in debt service. Fund balance at this level exceeds any reasonable cushion for the ensuing fiscal year. We reviewed the sewer district budget and actual revenues and expenditures during our audit period and found that actual revenues and expenditures were within an acceptable variance from the budgeted amounts. The Board did not appropriate any fund balance in the sewer district fund, keeping the unrestricted, unappropriated fund balance at an excessive amount. The Supervisor told us he does not consider the fund balance in the sewer district fund to be high as the sewer district is responsible for the infrastructure and that unexpected repairs could surpass the amount of fund balance on hand. However, if the Board believes it is necessary to accumulate moneys for future infrastructure needs, it should formally establish a reserve for this purpose.

## **Long-Term Planning**

Planning on a multiyear basis allows Town officials to identify developing revenue and expenditure trends and set long-term priorities and goals. It also allows them to assess the impact and merits of alternative approaches to financial issues, such as accumulating money in reserve funds and the use of fund balance to finance operations. Effective multiyear plans project operating and capital needs and financing sources over a three-to-five year period. It is also essential that any long-term financial plans are monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board did not develop a comprehensive, multiyear financial operating or capital plan. Such plans would be a useful tool for the Board to address the excessive fund balance. The Board has discussed potential future expenditures that could reduce fund balance, such as

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<sup>2</sup> The Town contracts with the Oneida County Sewer District to provide sewer services to Town residents. The Mohawk Valley Water Authority bills residents directly for sewer usage. The Town still levies assessments on properties located in the sewer district to pay other expenditures.



a walking trail, a pavilion, parking lot resurfacing and a new heating system. It would be appropriate for the Board to include these types of potential uses in a long-term financial plan.

## **Recommendations**

The Board should:

1. Develop a fund balance policy that establishes a reasonable amount of fund balance that should be maintained in each fund in order to meet the Town's needs.
2. Formulate a plan for the use of excess unrestricted, unappropriated fund balance in the general and sewer district funds in a manner that benefits taxpayers. Such uses include, but are not limited to, reducing property taxes, paying off debt, establishing necessary reserves or financing one-time expenditures.
3. Adopt budgets that include realistic estimates for revenues, expenditures and appropriated fund balance.
4. Develop and adopt a comprehensive multiyear financial and capital plan to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



*Town of Schuyler*  
*Herkimer County, New York*

**KENNETH M. DODGE**  
SUPERVISOR

**BARBARA BOULIA**  
SUPERVISOR'S  
SECRETARY

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TOWN JUSTICE

**DALE CHRISTIE**  
TOWN JUSTICE

August 18, 2014

Chief Examiner of O.S.C.  
Office of State Comptroller Office  
Division of Local Government & School Accountability  
PSU CAP Submission  
110 State Street 12<sup>th</sup> Floor  
Albany, New York 12236

Dear Rebecca A. Wilcox

The Town of Schuyler has received on July 30, 2014, a preliminary draft report, and we are in agreement with the report findings concerning the Audit.

The Town of Schuyler is currently in the process of taking action and developing a corrective action plan.

We thank you for all your help.

Sincerely,

TOWN OF SCHUYLER

Kenneth M. Dodge  
Town Supervisor

KMD:bjb

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

We evaluated the Town's financial management from January 1 through December 31, 2013. We expanded the scope of our audit back to January 1, 2011 to analyze prior years' financial trends.

To achieve our audit objective and obtain valid evidence, we performed the following audit procedures:

- We reviewed Board minutes and documentation and made inquiries of Town officials.
- We interviewed Town officials regarding budgeting practices.
- We reviewed the Town's financial records and reports, including budgets and annual reports, and completed an analysis of fund balance.
- We analyzed the changes in fund balance and variances in budget-to-actual revenues and expenditures. We also calculated operating deficits and surpluses.

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

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Nathalie N. Carey, Assistant Comptroller

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