



Town of Owego

Financial Management

Report of Examination

Period Covered:

January 1, 2012 – December 31, 2014

2015M-179



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2015

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 Owego, 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 New York State 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 Owego (Town) is located in Tioga County and has a population of approximately 20,000 residents. The Town is governed by an elected five-member Town Board (Board) which is composed of the Town Supervisor (Supervisor) and four Board members. The Board is the legislative body responsible for overseeing the Town's operations and finances and overall management of the Town, including adopting and monitoring the budget.

The Supervisor is the chief executive officer and chief fiscal officer and is responsible for the Town's daily financial operations, including maintaining accounting records and providing the Board with timely and accurate financial information. The Supervisor appoints a bookkeeper who carries out the Supervisor's responsibilities for maintaining the accounting records.

The Town provides various services to its residents, including highway and street maintenance, parks and recreation, water and sewer service and general government support. The Town's 2015 budgeted appropriations for the major operating funds totaled \$11.8 million, \$3.3 million of which represents the appropriations for the Town's two general funds. The Town's appropriations are funded primarily with real property taxes, sales tax, water and sewer charges and State aid.

The Town has a history of flooding because of its location alongside the Susquehanna River. The Town was hit by major floods of 2006 and 2011 and experienced significant damages. During the last three years, many projects that were the result of flood damages have been completed, including the restoration of the Town's parks and recreational facilities.

Objective

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

- Did Town officials properly manage the Town's general fund balances?

Scope and Methodology

We examined the Town's financial management from January 1, 2012 through December 31, 2014.

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. 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.

**Comments of
Town 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 recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues 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 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 Clerk's office.

Financial Management

A fundamental expectation in managing a town's financial condition is for the governing board to develop financial plans and budgets to provide funding of known operational needs based on historical trends. If town officials plan to use accumulated fund balance to fund operations, they can adopt budgets that appropriate fund balance. However, they must adopt reasonable estimates for expenditures and revenues that are based on a historical trend of actual results to ensure the appropriated fund balance is used and that fund balance levels are properly managed. It is also important to develop a comprehensive multiyear plan to finance capital or other one-time expenditures and to establish reasonable levels of fund balance to maintain to ensure that taxes are appropriate for the town's needs.

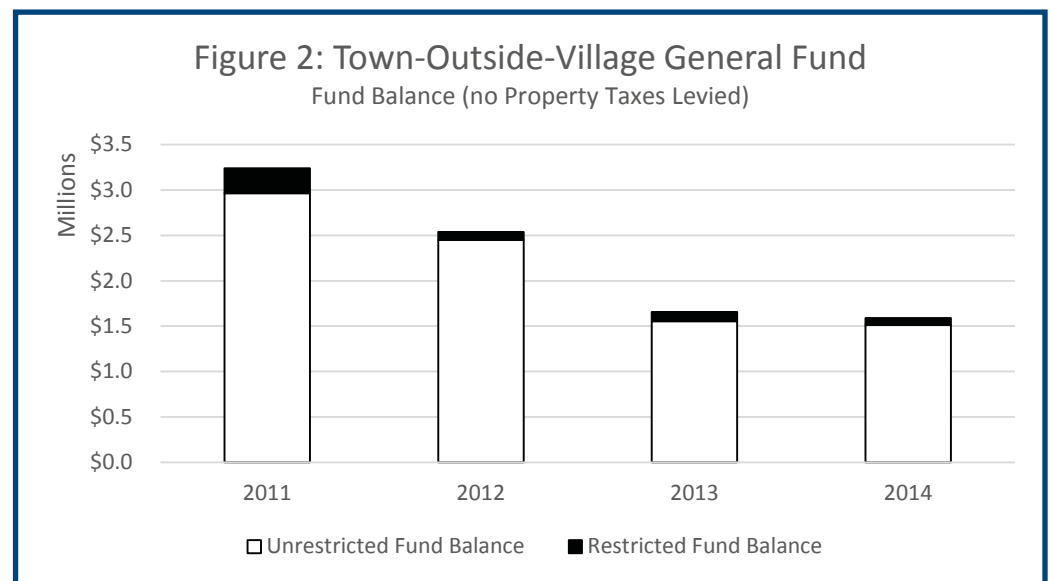
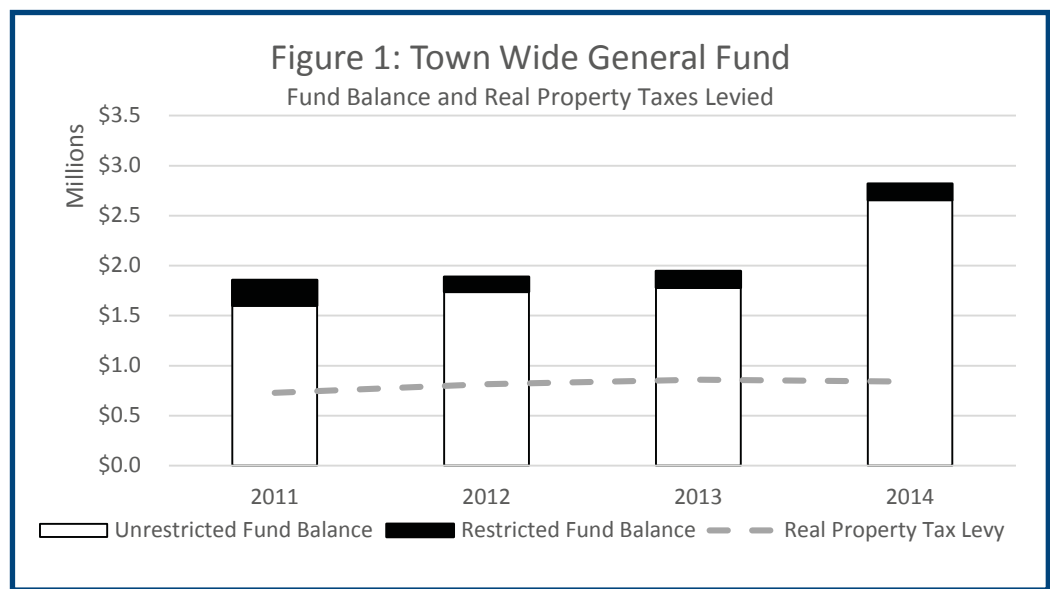
Town officials did not properly manage the town-wide and town-outside-village general fund balances. Town officials appropriated \$1.2 million, or an average of \$396,000 a year (22 percent of the budget), in the town-wide general fund over the past three years that was never used because revenue estimates were unreasonable. In addition, officials did not adopt reasonable revenue estimates for the town-outside-village general fund. As a result, the Town accumulated almost \$2.7 million in the town-wide general fund and more than \$1.5 million in the town-outside-village general fund. These amounts represent 140 and 107 percent of each of the funds' ensuing year's budgets. Town officials also have not developed a formal plan to use the fund balances that have been accumulated, nor have they adopted a policy for the acceptable levels of fund balance to maintain. As a result, they may have missed an opportunity to reduce the tax levy.

Although the Board developed reasonable appropriation estimates for both the general funds, the revenue estimates were not reasonable because they were not based on a historical trend of actual results.¹ For example, over the last three years, in the town-wide general fund, the Board budgeted \$140,000 for mortgage tax and \$130,000 for franchise fees each year. However, the actual amounts received averaged \$256,000 and \$205,000, respectively. In addition, in 2014 Town officials received a rebate check from the Towns' former health insurance consortium totaling \$850,000. This amount was not planned for; however, once they received it, the Board should have developed a plan for its use. As a result, the Town generated nearly \$1.7 million in revenue surpluses in those years. In the town-outside-

¹ Both funds had large budget variances due to Federal Emergency Management Agency (FEMA) revenues and expenditures. We did not consider these to be findings because it is difficult to estimate when FEMA revenues will be received.

village general fund, the Town received more than \$526,000 in sales tax revenues from 2012 through 2014, but Town officials failed to include estimates for sales tax in the adopted budgets. Although Town officials told us that they were reluctant to budget mortgage tax and franchise fees based on historical results because of the unpredictability of the revenue sources, we found that receipts from these revenues sources were fairly steady over the last three years. They also purposely did not budget for sales tax because they wanted to generate surpluses to accumulate fund balance.

These budget surpluses effectively nullified the Board’s plan (according to the budget) to spend-down the town-wide general fund balance and instead caused the fund balance to increase.²



² The 2011 figures are based on what the Town reported. We performed data reliability testing on 2012 through 2014.

At the end of 2014, the unreserved fund balance in the town-wide general fund totaled \$2.7 million and in the town-outside-village general fund totaled \$1.5 million. The real property tax levy in the town-wide general fund was approximately \$870,000 for the following year, after a plan to appropriate \$433,000 in fund balance. As a result, the total unrestricted fund balance for the town-wide general fund has grown to approximately three times the real property tax levy. In addition, while the town-outside-village general fund's fund balance has decreased over the past several years, it still exceeds the fund's adopted budget of \$1.4 million. Town officials have not developed a plan to use the fund balance they accumulated in both funds, such as to finance capital or other one-time expenditures, nor have they adopted a policy that provides guidance on the acceptable levels of fund balance to be maintained.

Although the Supervisor and parks supervisor informed us that the Town has plans, such as the building of a gravel pit and renovations to the town hall³ and park facilities, none of these plans were formally established by the Board, including estimated funding and use of reserves. Town officials told us they are hesitant to restrict funds because of the Town's extensive history of damage caused by floods. The bookkeeper attended an Office of the State Comptroller training session in 2014 and, as a result, she and the Supervisor developed a policy that proposes what they consider to be reasonable levels of fund balances in the general funds. However, this policy was not reviewed or officially adopted by the Board, nor was it reflected in the 2015 Town budgets.

Because the Board did not adopt reasonable revenue estimates, it did not use the fund balance they continually appropriated over the last three years. As a result, the Board may have missed an opportunity to reduce the tax levy, and it accumulated fund balance without a clear purpose.

Recommendations

The Board should:

1. Develop reasonable revenue estimates that are based on a historical trend of actuals results.
2. Formally develop a plan to use the significant accumulated fund balances to finance capital or other one-time expenditures, including estimated funding and use of reserves.
3. Adopt a policy that provides guidance on an acceptable level of fund balance that should be maintained.

³ While we were on site, Town officials started the renovations to the Town hall.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

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



TOWN OF OWEGO SUPERVISOR

2354 State Route 434 ~ Apalachin, NY 13732

Office: 607-687-0123
Dept No: 7
Fax: 607-687-5191
TDD: 711

Donald Castellucci, Jr.

November 2, 2015

On October 1, 2015 the Town of Owego Supervisor and Bookkeeper met with representatives of the NYS Comptroller's Office to discuss the recent audit performed on the fiscal years 2012-2014.

The conclusions presented to the Town were met with mixed reviews. Please find below the Town's comments and response.

Regarding recommendation No. 3: **Fund Balance Policy**

The Town has never maintained an official policy regarding the appropriate amount to be maintained in its fund balance. Whenever asking the Comptroller's office to supply a recommendation for an appropriate balance that should be maintained, there has never been a definitive answer. The standard response has been, "It depends on the municipality and their situation."

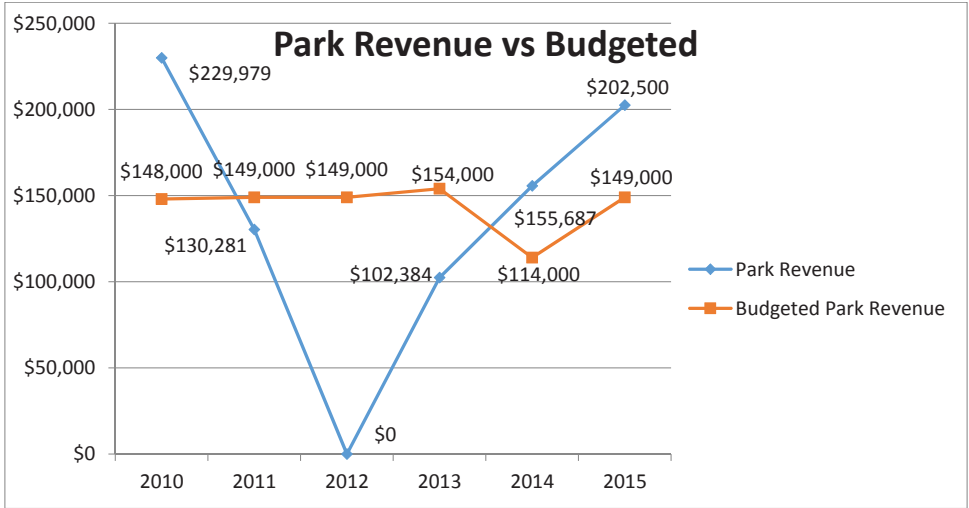
Attending a GFOA seminar in December of 2014, the topic of implementing a Fund Balance policy was discussed. That was the first time the Town Supervisor or the Bookkeeper had heard of the topic. After being made aware of it, a fund balance policy was beginning to be developed. At the same time, the Comptroller's office made an appointment for an audit. It was determined at that time by the Town Supervisor, the Town would wait for the results of the audit to implement a policy.

With the results of the audit now furnished to the Town, a fund balance policy will be adopted at the Town's organizational meeting on January 5, 2016.

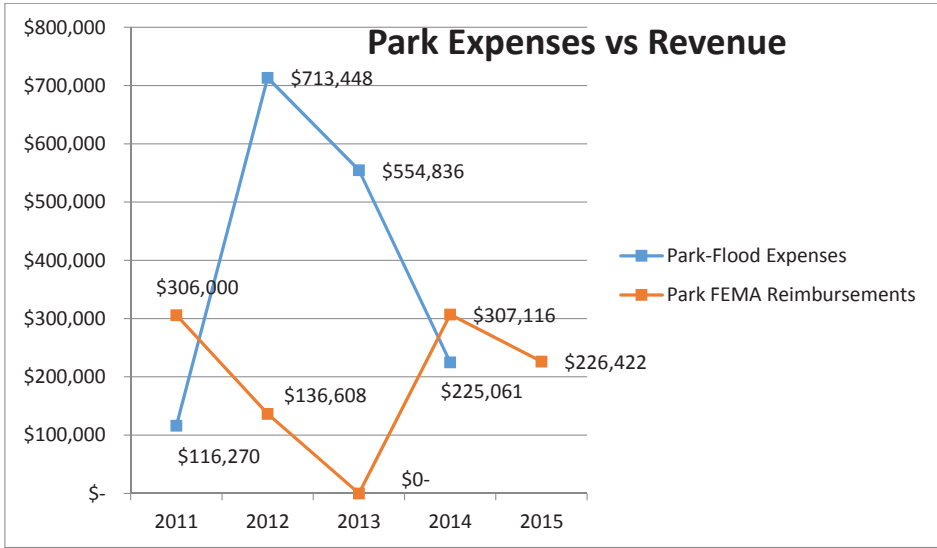
Regarding recommendation No. 1: **Underestimating Revenues**

The Town has a history of conservatively budgeting their revenues and with good cause. As you mention in your background of the Town, we are located on the banks of the Susquehanna River. We have endured two major floods since 2006 as well as another FEMA event in 2011. The 2006 event was 100 year flood of record and the 2011 event was a 500 year flood of record. There have been many flashflood events in the region over the past 5 years that have caused significant damage to roads and shoulders that the Town had to repair with no State or Federal assistance available. The Town endured two harsh winters in a row where our highway budget was overspent by over \$93,840 the past two years in sand and salt alone.. That does not include the repair to the roads above and beyond normal maintenance caused by the harsh winter. While the State provided some additional aid for the past two winters it was not nearly enough to compensate for the expenditures needed. In addition our Aid to Municipality funding has been flat since 2011 despite the "mandate relief" promised with the passage of the tax cap.

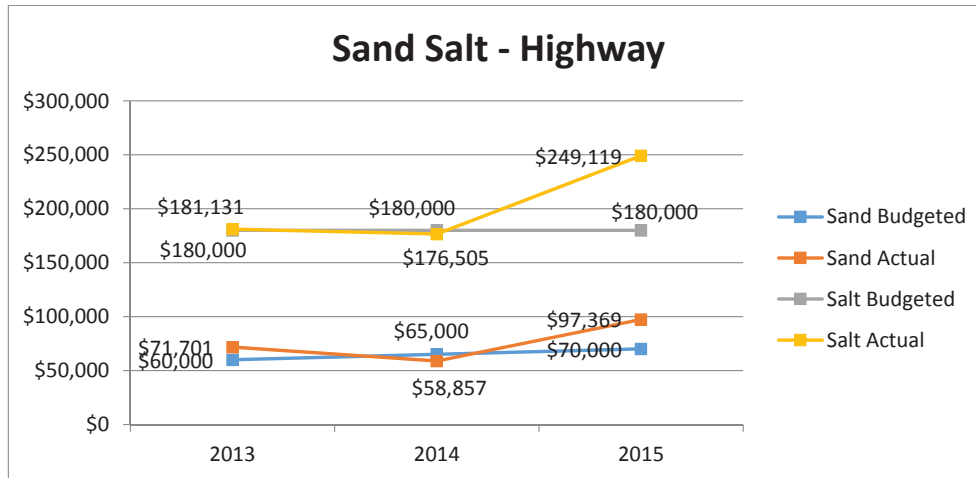
The Town has lost significant park revenue over the past 3 years due to the 2011 flood. In 2015 we have finally seen an uptick in revenue that is bringing us back to pre-2011 figures. As you can see from the chart below, the Town lost \$158,929 in budgeted revenue from the 2012-2014 years. If you can assume an average of 200,000 over those same years the Town was unable to earn an additional \$341,929 dollars. Due to the fact that the park floods on a continual basis over time, the Town feels it is prudent to conservatively budget its park revenue. (Chart Page 2)



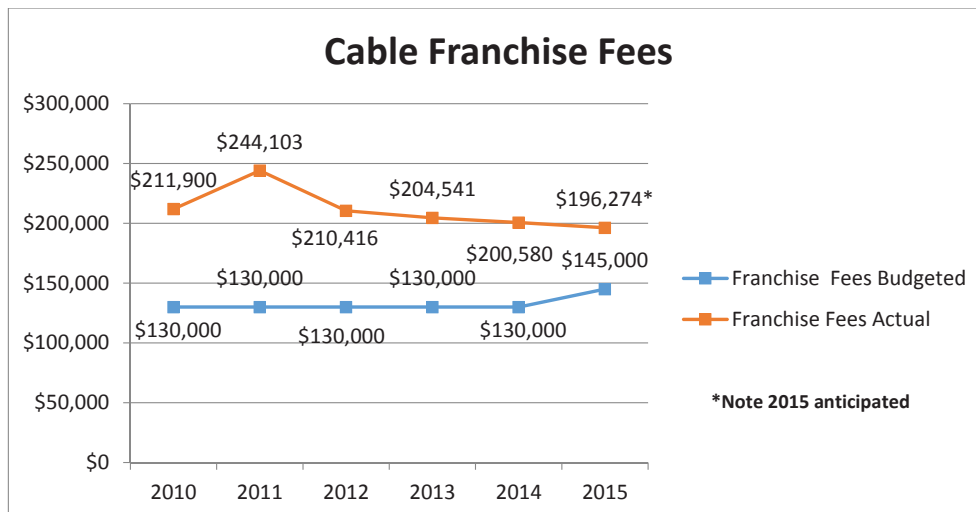
The chart below shows what the Town had to outlay to meet emergency repair and construction to mitigate damage related from the flood (blue). The amount the Town has received back for reimbursement is reflected in the red line. The Town has expended to date \$986,254 of its reserves over 2011-2015 time frame. The town anticipates another payment for \$743,008 in reimbursements for the construction of the new park entrance. The difference of \$243,246 will be expended out the Town's fund balance.



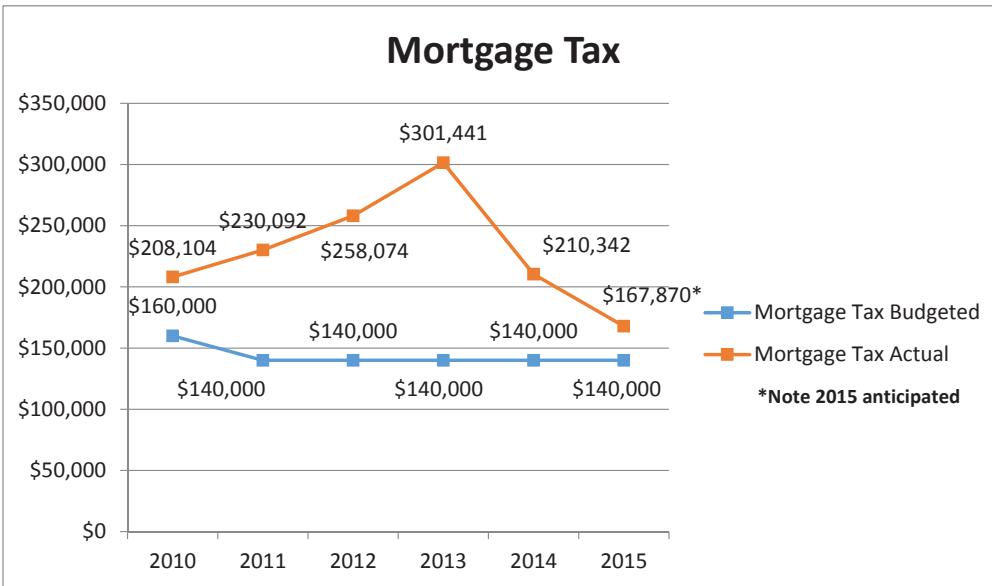
The highway budget experienced overruns the last two years due to the harsh winters. In addition, the damage caused by the weather created additional deterioration of the roads in the Town. The State did provide aid over the two year period in the amount of \$117,125. While the assistance was welcomed, it did not cover many of the expenses the Town endured. During the 2014-15 winter season the weather caused budget overruns of \$93,840 in salt and sand. When you add this to the road mitigation required, the last two winters had a negative impact on the proposed budgets.



While cable franchise fees have been consistent over the last several years we are starting to see a decline in revenue. The Town attests that to additional competition in the cable market. Having reviewed that line in the 2015 budget, it was determined that it would be prudent to increase that revenue line by \$15,000. Time Warner has not negotiated our new agreement since 2010. We will continue to monitor this line as we move forward.



The mortgage tax budget line is affected by the housing market, the economy, and sales of high value properties. For example several years back we experienced a spike due to the sale of Loral to Lockheed Martin. As you can see in the chart 2013 had a significant spike. This is believed to be mainly due to properties being sold because of the flood. In 2015 it is expected that the budgeted revenue will be in line with the actual received.



Regarding recommendation No. 2: **Plan regarding accumulated fund balance**

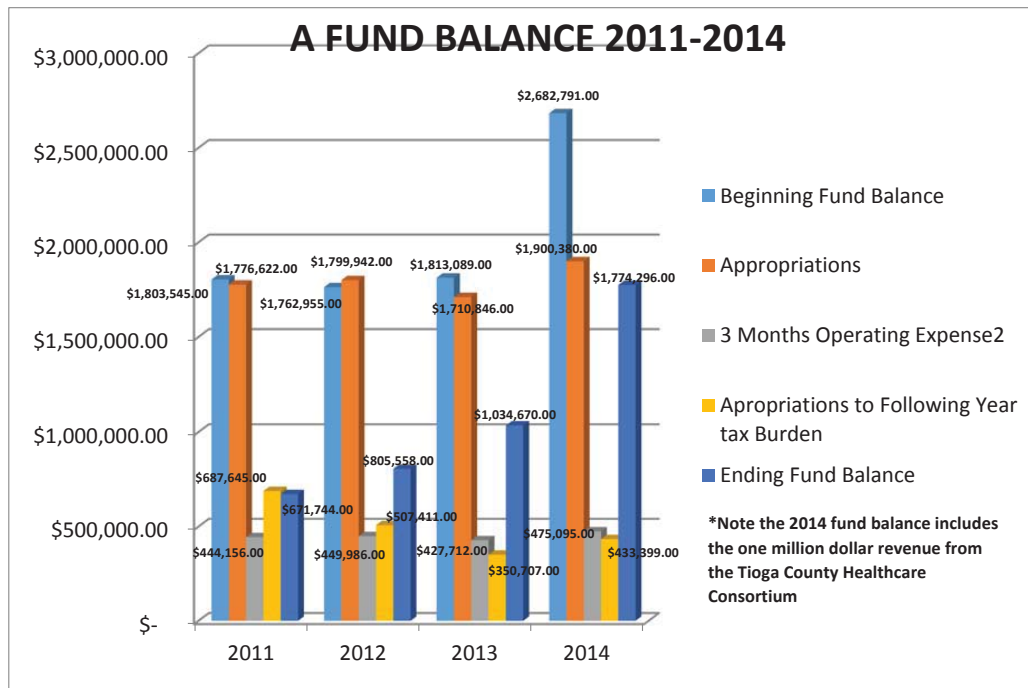
The Town disagrees with the assumption the fund balances are excessively high. However the Town does concur documentation should be in place to explain the different surpluses that make up the fund balance.

The Town keeps 3 months operating expense on hand to help react to any unexpected circumstances. This amount varies depended on the adopted budget. Part of the fund balance is used to offset the following year budget. The balance is kept on hand to deal with emergencies and unexpected expenditures. It should be noted that the Town does not receive funds from the Tax receiver until mid-February

As explained to the comptroller's office, the "A" fund balance received approximately 1,000,000 dollars in 2014 due to the County Health Care Consortium forced to disband because of legislation within the Affordable Care Act. When this revenue was received ideas were floated regarding its use. One was to use it to offset future increases in the Town's health care costs. Another was to offset the costs of the new shared service highway garage and renovations to the current town hall.

An example of unexpected expenses in the A fund occurred in 2011. After the flood \$231,565 dollars were incurred to repair the highway garage. In 2012 another \$4823 was incurred to due to flood issues.

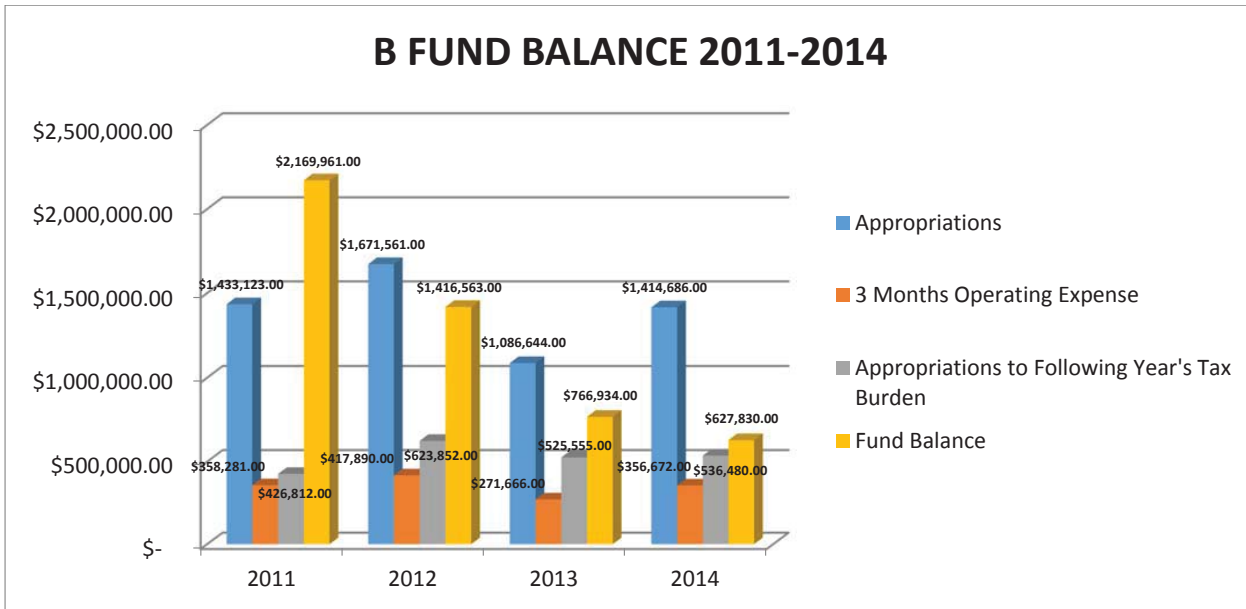
The Town was able to respond swiftly because of its ability to finance emergency responses. Having a highway operation functioning properly is also necessary from a public safety standpoint. Lastly the flooding issue was directly influencing the Towns ability to respond to late fall and winter weather conditions. Having the fund balance available was imperative to accomplish the needed results.



As with the "A" fund, the "B" fund is maintained in a similar manner. Three months operating expense is maintained. Fund balance is applied to the following year's budget. Unique to the B fund is no taxes are raised to maintain it. The B Fund is maintained through our Aid to Municipality funding, Park revenue and PILOT payments.

As you can see from the chart on page 2 above, our Parks budget was impacted severely by the flood. The ability to react to those emergency situations as well as provide long term solutions was accomplished by having a reasonable amount of fund balance. Our Parks and highway infrastructure are continually challenged due to flash flood rain events and almost annual moderate Spring flooding.

It can be recognized in the "B Fund" chart it did not take long for the Fund balance to reduce from 2.1 million dollars pre 2011 flood to the 2014 balance of \$627,830 dollars. If we had to contend with two disasters in a shorter period of time, we most likely would not be able to directly address the many needs in a timely manner.



See
Note 3
Page 15

Considering the information provided, the Town feels that its fund balances reflect accurate needs of the town's operations and the services it provides. During the 2011 flood the Town was able to respond quickly and effectively because of its ability to fund emergency responses and mitigate issues as quickly as possible. It is a matter of public safety and security as we have water and sewer systems to maintain as well.

Using the water and sewer systems as an example, not having enough fund balance to fund the mitigation needed after the flood, the Town bonded approximately 3million dollars to address the needed operations. That cost the town approximately \$60,000 in fees (bond council and financial advisors) and interest. Those fees are not refundable under FEMA. Other municipalities in our region were forced to bond for repairs and pay those fees. The Town saved those fees for the taxpayer because it was able to subsidize the mitigation within the funds until the Town was reimbursed. It is important to note that many of the expenses for these events are not reimbursable and are covered by fund balances.

The town would also like to address the issue of transparency. It is noted that a plan for the fund balance would be beneficial and give the public a better understanding of the fund balances. With that said, please note that the plans for building mitigation, the shared highway facility and other projects have been discussed at Town Board meetings. None of the projects being considered at this time have been left out of discussion during board meetings.

As previously stated the Town is located on the Susquehanna River where flooding occurs on a regular basis, not just catastrophic events. The need for a sufficient fund balance is imperative.

The Town would like to thank the comptroller's office for their opinion, direction and solutions. As noted, the Town will adopt a fund balance policy, will continue to review its revenue stream and spell out more specifically when possible its plan for future fund balances.

Respectfully submitted,

Donalá Castelfucci, Jr.
Town of Owego Supervisor

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

Our audit report documents that the Town received a rebate check from the Town's former health insurance consortium totaling \$850,000. The Town's response refers to \$1,000,000 that includes \$150,000 in additional funds that were received subsequent to our audit period. The Town should have developed a plan for the use of this money and the funds should have been restricted or appropriated in accordance with the plan.

Note 2

The "A Fund" is another name for the town-wide general fund. Town officials did not disagree with the numbers presented in our report. The "beginning fund balance" in the Town's response represents the Town's reported ending unrestricted fund balance that we document in Figure 1. The "ending fund balance" in the Town's response is still the "beginning fund balance," after it has been adjusted for the various items in the Town's response.

Note 3

The "B Fund" is another name for the town-outside-village general fund. Town officials did not disagree with the numbers presented in our report. Town officials did not document "beginning fund balance" in this chart as in the previous chart. Therefore, none of these figures are meant to represent the fund balance figures reported in our audit report.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

We examined financial records and reports and annual audit reports, interviewed Town officials and conducted a budget analysis for the Town's two general funds from January 1, 2012 through December 31, 2014. To accomplish our audit objectives and obtain valid and relevant audit evidence, we performed the following procedures:

- We interviewed Town officials regarding their procedures for managing the Town's fund balance, including any planned projects or policies they have created.
- We calculated the general funds' unrestricted fund balances in total and as a percentage of the ensuing year's appropriations from 2012 through 2014.
- We compared the budget-to-actual results of operations and made inquiries of Town officials for variances in excess of 10 percent for revenues and expenditures.
- We calculated the operating surplus/deficit from 2012 through 2014 for each of the general funds and determined whether the Town used the fund balance appropriated each year.

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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