



# Town of Esperance Fund Balance

## Report of Examination

Period Covered:

January 1, 2015 – September 26, 2016

2016M-405



Thomas P. DiNapoli

# Table of Contents

	Page
<b>AUTHORITY LETTER</b>	1
<b>INTRODUCTION</b>	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Local Officials and Corrective Action	3
<b>FUND BALANCE</b>	4
Recommendations	6
<b>APPENDIX A</b> Response From Local Officials	7
<b>APPENDIX B</b> OSC Comments on the Town's Response	10
<b>APPENDIX C</b> Audit Methodology and Standards	11
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	12
<b>APPENDIX E</b> Local Regional Office Listing	13

# State of New York Office of the State Comptroller

---

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

February 2017

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 Esperance, entitled Fund Balance. 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 Esperance (Town), which includes the Village of Esperance within its boundaries, is located in Schoharie County (County) and serves 2,076 residents. The elected five-member Town Board (Board) is the legislative body responsible for the general management and control of the Town's finances and operations, including maintaining a sound financial position. The Town Supervisor (Supervisor) is a member of the Board and serves as the Town's chief executive officer and chief fiscal officer. The Town provides various services to its residents, including general governmental support.

The Town's Highway Superintendent (Superintendent), a separately elected position, is primarily responsible for the maintenance and repair of Town roads. The Town contracts with the County for maintenance, repairs and snow removal of its nine miles of roads. The Superintendent's position is part-time and involves reporting monthly to the Board, filing the Town's Consolidated Local Street and Highway Improvement Program (CHIPs) paperwork and directing, approving and overseeing the contracted services from the County. Currently, the Town has no highway equipment or garage.

Budgeted appropriations in 2016 totaled approximately \$567,000 for all funds, funded primarily with real property taxes and State aid. Appropriations included \$292,000 for town-wide (TW) funds and \$139,600 for town-outside-village (TOV) funds. TW funds encompass the entire Town, including the Village. TOV funds encompass only the portion of the Town that lies outside of the Village.

## Objective

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

- Did the Board properly manage fund balance?

## Scope and Methodology

We examined the Board's management of fund balance for the period January 1, 2015 through September 26, 2016. We extended our scope back to January 1, 2014 for historical perspective.

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.

**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 generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on issues raised in the Town's response letter.

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 Town Clerk's office.

## Fund Balance

The Board is responsible for maintaining the Town's fiscal health and making sound financial decisions that are in the best interest of the Town and the residents who fund its operations. Town officials can legally set aside or reserve portions of fund balance to finance future costs for a specific purpose. Town officials may also appropriate a portion of fund balance to help finance the subsequent year's budget. Adopting a fund balance policy that addresses the appropriate level of fund balance to be maintained from year-to-year provides the Board with guidelines to use during the budget process. If fund balance is kept at excessively high levels, funds that could benefit the Town are not being used, thereby placing an unnecessary burden on the residents.

The Board should adopt a policy to establish the level of fund balance to be maintained in each fund and create long-term financial and capital plans that set forth the Town's financial objectives and goals. Long-term planning, coupled with prudent fund balance management, helps ensure that sufficient funding will be available to finance current and long-term obligations and address unexpected occurrences without relying on short-term borrowing or depleting fund balance.

While Town officials effectively managed TW fund balances, they could improve their management of TOV fund balances. The Town has accumulated fund balance in the general and highway TOV funds without clear plans to use this money. More specifically, Town officials have not developed a fund balance policy, nor have they established any reserves or developed formal long-term capital or financial plans. As a result, the Board may have raised taxes unnecessarily in the TOV funds and may have missed opportunities to improve the level of service available to residents.

TOV fund balances have increased by 9 percent over the last three fiscal years, resulting in an accumulation of \$154,849, or 137 percent of the subsequent year's budget. During this same time period, the Board increased taxes by \$14,691, or 137 percent.

**Figure 1: 2014-16 Year-End Fund Balances for TOV Funds**

	TOV General	TOV Highway	Combined TOV
2014 Ending Fund Balance	\$23,492	\$118,879	\$142,371
Percentage of Subsequent Year's Budget	45%	198%	127%
2015 Ending Fund Balance	\$40,164	\$127,468	\$167,632
Percentage of Subsequent Year's Budget	86%	137%	120%
2016 Ending Fund Balance	\$43,526	\$111,323	\$154,849
Percentage of Subsequent Year's Budget	94%	166%	137%

This occurred because the Board has not established clear expectations for the level of fund balance to be maintained. While Town officials have plans to increase the level of services provided to Town residents, they do not have a formal plan for the use of fund balance, including optimal or targeted funding levels to achieve their plans. For example, the Supervisor stated he was interested in purchasing a pickup truck with a plow and sander to increase some local control over road maintenance and repairs. This would allow the Town to clear smaller side streets and to plow the Town Hall parking lot and transfer station. A truck would also allow the Town to respond to certain situations more quickly and efficiently, such as drainage clearing and tree removal in the event of a storm, rather than wait for the County to provide these services. In fact, the 2017 budget includes a \$10,000 appropriation for machinery. Additionally, the Board discussed hiring a part-time highway employee, expanding the Superintendent's role and building a small highway garage.

Without clear plans for the use of these accumulated funds, Town officials may have raised taxes unnecessarily in the TOV funds. Town officials have appropriated \$5,000 of fund balance and reduced the tax levy in the 2017 budget by a similar amount. While this is a positive step, it will not result in a significant reduction of fund balance levels. When fund balance is maintained at high levels, funds that could benefit the Town are not being used, thereby placing an unnecessary burden on the residents. As a result of our audit, the Supervisor expressed interest in establishing reserves to assist in the long-term capital and financial planning. We referred the Supervisor to our publications, *Local Government Management Guide on Reserves*<sup>1</sup> and *Multiyear Financial Planning*.<sup>2</sup>

<sup>1</sup> <https://www.osc.state.ny.us/localgov/pubs/lgmng/reservefunds.pdf>

<sup>2</sup> <https://www.osc.state.ny.us/localgov/pubs/lgmng/multiyear.pdf>

## Recommendations

The Board should:

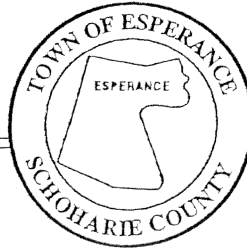
1. Develop a plan to reduce the amount of available fund balance in a manner that benefits Town residents. Such uses could include, but are not limited to:
  - Funding one-time expenditures;
  - Funding needed reserves; and
  - Reducing property taxes.
2. Adopt a written fund balance policy that establishes reasonable levels of fund balance in order to meet the Town's needs.



## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



Established

1846

Jan. 25, 2017

Mr. Todd Eames, Chief Examiner  
NYS Office of the State Comptroller  
Binghamton Regional Office  
Binghamton State Office Building,  
44 Hawley St., Room 1702  
Binghamton, NY 13901

**Response to Town of Esperance Fund Balance Examination Report performed by the State of New York Office  
of the State Comptroller**

First I would like to say the auditors sent out to perform the audit were very professional and thorough. I believe I provided all of the information they had requested. I have seen the draft report and find it to be accurate for the most part.

I do disagree though about increasing the fund balance without a plan in mind. First of all we had a major flood in 2011, which devastated the town and our finances. We also had a severe winter in 2015, which increased the cost almost three times the usual costs for a winter period. The Town Board felt that we had to build a cushion to stave off this major burden to our taxpayers, so we increased our fund balances by just 7% over each of the past fiscal years instead of waiting we were bankrupt and trying to pay bills we had no money to cover, placing the Town in real fiscal stress.

See  
Note 1  
Page 10

On the subject of a fund balance policy we never knew that we had to have one. If we had known we would have had one. We feel based on the past problems we had, that probably a maximum fund balance would be 40%. We would probably then establish reserved funds. Remember that our Town Outside Village Fund is almost entirely funded by fees collected and State funding.

As to answering the statement that we have no clear cut plans for the \$10,000.00 we have budgeted for future Highway plans, I feel this is only partially correct. We did budget \$10,000.00 that is true, but as clear cut plans go we have a plan to begin raising funds to purchase equipment to plow, sand and maintain our Town Hall and future building at our transfer site. This equipment could also be used to save taxpayers additional dollars by doing smaller jobs without having to contract them out and paying prevailing wages. We do have a plan.

See  
Note 2  
Page 10

The other major concern is the use of percentages. This can give an unrealistic idea of the true picture of the fund balances. For example you show 2016 ending balance projected:

\$42,592.00 and \$109,336 = \$159,128.00 Town Outside General and Town Outside the Village Highway combined, 92% and 163% = 134%. Increasing taxes \$14,691.00 or 137%. We are talking about \$14,691.00 not hundreds of thousands of dollars. Spread out over the entire tax base of the Town of Esperance which, is not a huge tax increase to the taxpayers. I have explained our past problems from flooding which, were not only in 2011 but also in 1996 and in 2005 that were also major floods.

Again, would like to thank the auditors for there suggestions and we will take all of the comments under consideration and try to do our very best to serve our taxpayers.

Very truly yours,

Earl Van Wormer, III  
Supervisor Town of Esperance

## **APPENDIX B**

### **OSC COMMENTS ON THE TOWN'S RESPONSE**

#### **Note 1**

If the Board intends to maintain fund balance at certain levels, it should formalize its plans and adopt a policy to establish the level of fund balance to be maintained in each fund and create long-term financial and capital plans that set forth the Town's financial objectives and goals.

#### **Note 2**

If Town officials intend to begin raising funds to purchase equipment for road and parking lot maintenance, they should formalize their plans as outlined in our referenced publications.

## **APPENDIX C**

### **AUDIT METHODOLOGY AND STANDARDS**

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

- We reviewed Board minutes and interviewed Town officials regarding fund balance policies and procedures and budgeting practices.
- We discussed with Town officials their long-term financial and capital needs, including plans for funding these needs.
- We reviewed the Town's financial records and reports, including budgets, tax levies and annual reports to analyze available fund balance.
- We projected the results of operations as of September 30, 2016 to the end of fiscal year 2016 for the TW and TOV funds and compared the financial information to the prior year, the 2015 and 2016 budgets and the information we received from discussions with Town officials.
- We analyzed available fund balance in the TW and TOV funds at the end of the past three fiscal years and compared the amounts to subsequent years' expenditures to assess the levels of fund balance.

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.

## **APPENDIX D**

### **HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT**

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller  
Public Information Office  
110 State Street, 15th Floor  
Albany, New York 12236  
(518) 474-4015  
<http://www.osc.state.ny.us/localgov/>

**APPENDIX E**  
**OFFICE OF THE STATE COMPTROLLER**  
**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Tracey Hitchen Boyd, Assistant Comptroller

**LOCAL REGIONAL OFFICE LISTING**

---

**BINGHAMTON REGIONAL OFFICE**

H. Todd Eames, Chief Examiner  
Office of the State Comptroller  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313  
Email: [Muni-Binghamton@osc.state.ny.us](mailto:Muni-Binghamton@osc.state.ny.us)

Serving: Broome, Chenango, Cortland, Delaware,  
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

**BUFFALO REGIONAL OFFICE**

Jeffrey D. Mazula, Chief Examiner  
Office of the State Comptroller  
295 Main Street, Suite 1032  
Buffalo, New York 14203-2510  
(716) 847-3647 Fax (716) 847-3643  
Email: [Muni-Buffalo@osc.state.ny.us](mailto:Muni-Buffalo@osc.state.ny.us)

Serving: Allegany, Cattaraugus, Chautauqua, Erie,  
Genesee, Niagara, Orleans, Wyoming Counties

**GLENS FALLS REGIONAL OFFICE**

Jeffrey P. Leonard, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396  
(518) 793-0057 Fax (518) 793-5797  
Email: [Muni-GlensFalls@osc.state.ny.us](mailto:Muni-GlensFalls@osc.state.ny.us)

Serving: Albany, Clinton, Essex, Franklin,  
Fulton, Hamilton, Montgomery, Rensselaer,  
Saratoga, Schenectady, Warren, Washington Counties

**HAUPPAUGE REGIONAL OFFICE**

Ira McCracken, Chief Examiner  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
250 Veterans Memorial Highway  
Hauppauge, New York 11788-5533  
(631) 952-6534 Fax (631) 952-6530  
Email: [Muni-Hauppauge@osc.state.ny.us](mailto:Muni-Hauppauge@osc.state.ny.us)

Serving: Nassau and Suffolk Counties

**NEWBURGH REGIONAL OFFICE**

Tenneh Blamah, Chief Examiner  
Office of the State Comptroller  
33 Airport Center Drive, Suite 103  
New Windsor, New York 12553-4725  
(845) 567-0858 Fax (845) 567-0080  
Email: [Muni-Newburgh@osc.state.ny.us](mailto:Muni-Newburgh@osc.state.ny.us)

Serving: Columbia, Dutchess, Greene, Orange,  
Putnam, Rockland, Ulster, Westchester Counties

**ROCHESTER REGIONAL OFFICE**

Edward V. Grant, Jr., Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street, Suite 522  
Rochester, New York 14614-1608  
(585) 454-2460 Fax (585) 454-3545  
Email: [Muni-Rochester@osc.state.ny.us](mailto:Muni-Rochester@osc.state.ny.us)

Serving: Cayuga, Chemung, Livingston, Monroe,  
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

**SYRACUSE REGIONAL OFFICE**

Rebecca Wilcox, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, New York 13202-1428  
(315) 428-4192 Fax (315) 426-2119  
Email: [Muni-Syracuse@osc.state.ny.us](mailto:Muni-Syracuse@osc.state.ny.us)

Serving: Herkimer, Jefferson, Lewis, Madison,  
Oneida, Onondaga, Oswego, St. Lawrence Counties

**STATEWIDE AUDITS**

Ann C. Singer, Chief Examiner  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313