



Town of Italy Multiyear Planning

Report of Examination

Period Covered:

January 1, 2015 – January 12, 2017

2017M-53



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 Italy, entitled Multiyear Planning. 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 Italy (Town) is located in Yates County, covers 40 square miles and serves approximately 1,100 residents. The Town provides services for its residents including highway maintenance, snow removal, code enforcement and general government support. The Town's total budgeted appropriations for 2016 were approximately \$1.2 million, funded primarily with real property taxes and State and federal aid. The Town is governed by an elected Town Board (Board) composed of a Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor serves as the chief executive officer and chief fiscal officer.

The Town's Highway Superintendent (Superintendent), a separately elected position, is primarily responsible for the maintenance and repair of Town roads. The Town experienced turnover in the Superintendent position during our scope period. The current Superintendent took office in January 2016. The Town has 132.36 lane miles of roads, including 57.4 lane miles, or 43 percent, of unpaved sections that it is responsible for maintaining.

Objective

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

- Have Town officials established multiyear financial and capital plans and appropriately established and funded reserves to adequately address the Town's operational and capital needs?

Scope and Methodology

We examined the Town's multiyear planning for the period January 1, 2015 through January 12, 2017. We extended our scope back to January 1, 2013 to review fund balance and equipment repair expense 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. 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 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 findings and indicated they will take corrective 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 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.

Multiyear Planning

Multiyear planning can be a vital tool for local governments, especially those struggling with difficult financial conditions. It allows decision-makers to set long-term priorities and work toward goals rather than making choices based on the needs of the moment. Multiyear plans can help officials see the impact of their financial decisions over time allowing them to decide which funding choices to make in advance, avoiding sudden tax increases or drastic budget cuts. Multiyear planning also allows Town officials to assess the effects and merits of alternative approaches to financial issues such as accumulating money in reserve funds, obtaining financing or using surplus funds to finance operations. Policies for fund balance and reserves establish an adequate level of fund balance to be maintained and provide guidance to Town officials during the annual budgeting process for amounts needed to fund reserves. These policies are not only an important planning tool for the Board but also an effective means of communicating the Board's goals and priorities to taxpayers.

Town officials have not established a multiyear financial or capital plan or fund balance or reserve policy. The Board has adopted budgets that focus on the immediate needs of general governance and highway services. As a result, the Town operates with minimal unassigned fund balances. As of December 31, 2016, the general fund's unassigned fund balance declined to \$28,606 (11 percent of 2017 appropriations) and the highway fund's unassigned fund balance has declined to \$74,941 (7 percent of 2017 appropriations). The combined unassigned fund balance of approximately \$103,500 may prove insufficient as a buffer for unexpected expenditures, revenue shortfalls or future highway equipment and capital needs. Further, the Town has not established any reserves for identified future expenditures.

Multiyear Financial Planning

A multiyear financial plan projects revenues and operating expenditures for several years, which helps Town officials assess expenditure commitments, revenue trends, financial risks and the affordability of new services and capital investments. A reasonable level of fund balance also provides a cushion throughout the fiscal year that can help smooth out cash flow troughs. It is essential that multiyear financial plans are monitored and updated regularly to ensure that decisions are guided by the most accurate information available.

Town officials have not established a multiyear financial plan. Although they have budgeted conservatively in the general fund – keeping the unassigned balance relatively stable during the past four

years (2013 through 2016) – the limited levels are not an adequate buffer for budget shortfalls and unexpected events. This is particularly problematic because the Town has not set money aside for capital expenses and has historically only budgeted \$1,500 for contingencies each year.

Unlike the general fund, the highway fund has fluctuated significantly, largely due to disaster assistance. The Town received \$512,811 in federal and State emergency disaster aid in 2014 due to flood damage (Figure 1). Using the Town’s personnel and equipment combined with the State’s Consolidated Local Street and Highway Improvement Program (CHIPS) money, the Town was able to appropriate \$308,499 of its highway fund balance for 2017 to offset the cost of replacing two dump trucks. While this non-recurring or “one-shot” infusion of revenue did provide resources for a one-time investment in highway equipment, this capital expenditure reduced the highway unappropriated fund balance from nearly \$500,000 in 2014 to about \$75,000 in 2016. Therefore, the Town is left with inadequate resources to finance other pressing capital needs (see following section).

Figure 1 illustrates the Town’s recent financial performance:

Figure 1: Operating Results and Fund Balances								
	General Fund				Highway Fund			
	2013	2014	2015	2016	2013	2014	2015	2016
Beginning Fund Balance	\$60,737	\$75,534	\$53,745	\$53,824	\$70,091	\$5,876	\$525,019	\$396,002
Plus: Operating Surplus/(Deficit)	\$14,797	(\$21,789)	\$79	(\$3,167)	(\$64,215)	\$519,411 ^a	(\$129,018)	(\$12,562)
Prior Period Adjustment	\$0	\$0	\$0	\$0	\$0	(\$267)	\$0	\$0
Ending Fund Balance	\$75,534	\$53,745	\$53,824	\$50,657	\$5,876	\$525,020	\$396,002	\$383,440
Less: Appropriated Fund Balance for Ensuing Year	\$22,883	\$27,137	\$30,000	\$22,051	\$293	\$25,500	\$165,000	\$308,499
Unassigned Fund Balance at Year-End	\$52,651	\$26,608	\$23,824	\$28,606	\$5,583	\$499,520	\$231,002	\$74,941
Ensuing Year’s Budgeted Appropriations	\$269,332	\$270,113	\$250,326	\$266,928	\$630,550	\$656,215	\$942,683	\$1,130,168
Unassigned Fund Balance as Percentage of Ensuing Year’s Appropriations	19.5%	9.9%	9.5%	10.7%	0.9%	76.1%	24.5%	6.6%

^a The 2014 operating surplus contains \$512,811 in one-time revenue from federal and State emergency disaster aid.

The Board has not established a policy or plan to guide officials in determining the amount of fund balance it deems to be reasonable or under what specific circumstances or in which manner excessive amounts of fund balance should be used. Possible uses include, but are not limited to, appropriating fund balance to lower the ensuing year's tax levy, establishing various reserves that could fund future equipment purchases or capital projects or helping to stabilize the tax levy.

In addition, the Board has not established any reserve funds as a mechanism for legally saving money to finance all or part of future infrastructure, equipment or other needs. Reserve funds can reduce reliance on debt to finance capital projects and other acquisitions and can mitigate the need to cut services or raise taxes. We encourage the Board to consider establishing reserves, especially considering the Town's depleted levels of unassigned fund balance and numerous capital needs (see next section). When establishing reserves, the Board should develop a written policy that explains to taxpayers why money is being set aside, and documents the reserve's financial objectives, estimated funding levels and the conditions under which funds will be used.

Multiyear Capital Planning

A well-structured capital plan enables municipalities to identify capital needs and the means of financing those needs. Ideally, the capital planning process identifies all capital and major equipment needs, incorporates a process for prioritizing projects and includes a maintenance cycle to sustain current capital assets. Local governments should monitor and update capital plans on an ongoing basis to ensure that decisions are made using the most accurate information available.

Town officials have not established a multiyear capital plan. Prior to 2017, the Board did not plan for the replacement of highway equipment. As a result, the Town highway department has a fleet of trucks and equipment that are in poor working condition and have mostly exceeded their useful lives. The Town owns 14 pieces of major highway equipment,¹12 of which have exceeded their useful lives, on average by 8.3 years. Not included in the following chart are a large dump truck and excavator, which are not past their useful life.

¹ Major highway equipment involves significant investment of resources and is used for tasks such as repairing and constructing highways, transporting large quantities of materials and removing snow and ice.

Figure 2: Age of Major Highway Equipment Past Its Useful Life

Type	Quantity	Age (Years)	Useful Life ^a (Years)	Years Past Useful Life
Large Dump Truck	3	12 ^b	8	4
1½-Ton Dump Truck	1	8	8	0
Superintendent Pickup Truck	1	9	4	5
Grader	1	20	8	12
Loader	1	18	8	10
Excavator	1	15	8	7
Bulldozer	1	13	8	5
Roller	1	22	8	14
Tractor	1	22	8	14
Backhoe	1	29	8	21
Average	N/A	15.9	7.7	8.3

^a Useful life is provided by the New York State Office of General Services and is used by the State for depreciation purposes. It is intended as a guide. Municipalities should develop their own estimated useful-life criteria based on their own individual experience.

^b The age of three large dump trucks was averaged. The Town has a fourth large dump truck which we excluded from this calculation because it was not past its useful life.

While useful life may not be an indication of how long a particular piece of equipment will last, local officials can consider this information when developing a multiyear plan. The Superintendent told us that the trucks perform efficiently for less time than that suggested by the Office of General Services due to the high percentage of unpaved roads and steep hills that the Town is responsible for maintaining and the lack of heat in the Town barn.

As a result of using equipment that has exceeded its useful life, Town officials may be spending more than necessary on equipment repairs and fuel expenses. The Town has incurred more than \$291,000 (averaging nearly \$73,000 per year) in repair and maintenance expenses from 2013 through 2016. In 2015 and 2016, the Town spent more than \$30,000 to repair its grader and more than \$23,000 to repair a dump truck.

Further, the Superintendent indicated that the trucks were not achieving efficient gas mileage due to their poor condition. We computed the fuel economy of the Town’s trucks and found that the Town’s four large dump trucks had an average fuel economy of 3.1 miles per gallon (mpg) in 2016. According to the U.S. Department of Energy these trucks should achieve 5.8 mpg. Therefore, the Town could have saved approximately \$9,000 in fuel costs in 2016 if the large dump trucks were in a condition to achieve that average fuel economy.

Town officials also cited additional capital needs. Of these, the most pressing included a salt storage facility² and roofing repairs to the highway barn and historic Town Hall.³ The New York State Department of Environmental Conservation (DEC) has identified road salt as a potential threat to water quality and considers the threat posed by improper storage to be more significant than that of spreading. Storage typically involves stockpiling large amounts of material at one location where, if not properly protected from precipitation and surface runoff, high concentrations of dissolved material can subsequently be transported to underlying groundwater or nearby water sources. The DEC strongly encourages proper storage in a salt storage facility that protects the materials from precipitation and surface runoff. Accordingly, the Board should consider not only the cost of salt that is lost, but the potential threat of contamination to Town water sources.

Recommendations

The Board should:

1. Develop multiyear financial and capital plans to ensure that financial resources are available to replace capital assets in a timely manner.
2. Develop a fund balance and reserve policy to govern the levels of unrestricted fund balance and reserves to maintain.
3. Consider establishing reserves, as part of its long-term planning efforts, to set aside funds for identified future expenditures. When establishing reserves, the Board should clearly establish the purpose, planned uses and desired funding level of each reserve.

² The Town applied for a grant to fund the purchase and installation of a salt storage facility in 2016, but was not approved.

³ Town officials have not obtained estimates for the needed repairs.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Town of Italy
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Naples, New York 14512
585-374-5035

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Margaret Dunn

Town Council
Richard Craig Ruth Craig
Malcolm MacKenzie David Ferry

Town Clerk/Tax Collector
Deborah Craig

Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, NY 14614

May 20, 2017

Dear Mr. Grant:

As the Town Supervisor/Fiscal Officer for the Town of Italy, this letter is to insure that we the acting Town Board do agree with the findings of the recent audit performed by your office covering January 1 2015 – January 12, 2017. The Town of Italy will take the proper steps to address the concerns stated in this audit. I have been supplied the link to the OSC web site to help guide me in the development of these plans.

Sincerely,

Margaret M. Dunn
Town Supervisor/Fiscal Officer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials and reviewed Board minutes to gain an understanding of the Town's financial operations, multiyear planning and condition of the highway equipment and capital assets.
- We reviewed the Town's financial records to determine if the Town had sufficient fund balance to address future financial and capital needs.
- We used the New York State Office of the State Comptroller's Capital Asset Guide to establish the useful life for each major piece of equipment listed on the Superintendent's highway equipment inventory and insurance policy to determine if the highway equipment was beyond its useful life.
- We reviewed the repair account detail from 2013 through 2016 to determine the total amount that the Town expended on equipment repairs and maintenance during that period. Further, we reviewed the vouchers and invoices for the 2015 and 2016 expenses to determine how much was expended per piece of equipment during that period.
- We reviewed the highway department's fuel inventory logs and calculated the average fuel economy of the Town trucks in 2016 and compared that to the United States Department of Energy average fuel economy for class eight trucks to determine if there were any cost savings opportunities if the Town were to purchase new trucks.

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 C

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