



# Town of Kortright Financial Management

## Report of Examination

Period Covered:

January 1, 2015 — August 25, 2016

2016M-397



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	2
<b>FINANCIAL MANAGEMENT</b>	4
Fund Balance	4
Multiyear Planning	6
Recommendations	6
<b>APPENDIX A</b> Infrastructure Pictures	8
<b>APPENDIX B</b> Response From Local Officials	9
<b>APPENDIX C</b> Audit Methodology and Standards	12
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	13
<b>APPENDIX E</b> Local Regional Office Listing	14

# 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 Kortright, 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 Kortright (Town) is located in Delaware County and has a population of approximately 2,000 residents. The Town provides various services for its residents, including street maintenance, water and sewer, justice court and general government support. The Town's 2017 general and highway funds' budget of \$1.2 million is funded primarily with real property taxes and State aid.

The Town is governed by an elected Town Board (Board) comprising the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's operations and finances. The Supervisor, as chief fiscal officer and chief executive officer, is responsible for the Town's day-to-day management, including performing basic accounting functions and maintaining accounting records, under the Board's direction. The Supervisor also serves as the Town's budget officer.

The Town Highway Superintendent (Superintendent) is primarily responsible for maintaining and repairing Town roads, as well as removing snow and brush. The Superintendent is also responsible for maintaining highway equipment.

## Objective

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

- Did the Board and Supervisor properly manage the Town's general and highway fund balances?

## Scope and Methodology

We examined the Town's financial condition for the period January 1, 2015 through August 25, 2016. We extended our audit scope back through January 1, 2005 to review fund balance and real property tax 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 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 B, have been considered in preparing this report. Town officials agreed with our findings and indicated the planned to 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 Town Board to make this plan available for public review in the Town Clerk's office.

## Financial Management

Fund balance represents money accumulated from prior fiscal years and may be used to fund reserves, provide for unexpected occurrences and cash flow or be set aside in reserves for future needs. The Board should establish reasonable levels of fund balance to ensure that taxes are appropriate for the Town's needs and have a reserve policy with plans for funding and use of reserves. It is also important for the Board to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, the Board should develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs.

The Board and Supervisor should improve their management of the Town's fund balances. The Town has accumulated fund balance totaling \$358,706 in the general fund and \$515,112 in the highway fund without clear plans for the use of these accumulated funds. Town officials have identified potential uses for the funds including needed repairs at the highway garage or road improvements, but have not developed financial plans to address these needs. In addition, Town officials have not planned for the Town's established reserves to fund these needs.

### Fund Balance

The Town may retain a reasonable portion of fund balance to be available in the event of unforeseen circumstances and to provide cash flow to compensate for timing differences between receipts and disbursements. The Board may also establish and place moneys into reserves to finance the future costs of a variety of items or purposes.

The Town has accumulated almost \$360,000 in total general fund balance (110 percent of the ensuing year's budget) and more than \$515,000 in total highway fund balance (58 percent of the ensuing year's budget) at the end of the 2016 fiscal year (Figure 1). While most of this fund balance has been placed into reserves, the Town does not have a long-term plan to establish what the reserves will be used for or how much funding will be needed.

**Figure 1: Fund Balance Levels**

	2006	2016	\$ Change	% Change
Total General Fund Balance	\$265,090	\$358,706	\$93,616	35%
Restricted Funds (Reserves)	\$156,759	\$211,981	\$55,222	35%
Unrestricted Funds	\$108,331	\$146,725	\$38,394	35%
Total Fund Balance as a Percentage of Ensuing Year's Budget	104%	110%		
Total Highway Fund Balance	\$377,807	\$515,112	\$137,305	36%
Restricted Funds (Reserves)	\$85,715	\$366,416	\$280,701	327%
Unrestricted Funds	\$292,092	\$148,696	(\$143,396)	(49%)
Total Fund Balance as a Percentage of Ensuing Year's Budget	50%	58%		

Town officials have restricted the majority of the fund balance in reserves for various purposes. The reserve balances in the general and highway funds have increased by 35 and 327 percent, respectively, since 2006, with no clear plan for their use. For example, Town officials have set aside more than \$300,000 for highway equipment and gravel purchases (Figure 2), but continue to finance the purchases through the annual operating budgets. Town officials spent almost \$300,000 for equipment and approximately \$75,000 for gravel from fiscal years 2013 through 2015.

**Figure 2: General and Highway Fund Reserve Balances as of December 31, 2016**

Gravel Reserve	\$175,788
Highway Equipment Reserve	\$134,825
Building Reserve	\$67,973
Good Neighbor Reserve	\$62,324
Stormwater Reserve	\$57,588
Highway Reserve	\$55,804
Cemetery Reserve	\$24,095
<b>Total</b>	<b>\$578,397</b>

All reserves have Board resolutions establishing them and, with the exception of the gravel reserve, have been appropriately established. However, although the Board authorized the gravel reserve, it is likely not allowed by law.

## Multiyear Planning

Multiyear financial planning is a tool the Town can use to improve the budget development process. Planning on a multiyear basis would enable the Board to identify developing revenue and expenditure trends, establish long-term priorities and goals, and consider the impact of current budgeting decisions on future fiscal years. It would also allow the Board to assess the merits of alternative approaches (such as using unexpended surplus funds or establishing and using reserves) to finance its operations. Any long-term financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

While the Board has set aside funds for future purposes, it does not have a formal plan for the use of the reserves, including how and when disbursements should be made, or optimal or targeted funding levels, and why these levels are required. Furthermore, the Board has not adopted long-term financial and infrastructure plans that set forth the Town's objectives and goals for the use of these accumulated funds.

Without clear plans for the use of this money, the Board has withheld significant funds from productive use, such as investments in infrastructure. For example, the Highway Superintendent told us that he would like to convert over 35 miles of the Town's dirt roads to oil and stone to maintain Town roads more efficiently. If it is the intent of the Town to make this road conversion, it should be included in the capital plan stating the time period to convert the cost and how it will be financed. Furthermore, there is significant water damage in the highway garage resulting from roof damage.<sup>1</sup> While Town officials are aware of the need for repairs and have funds available in fund balance and reserves, they have not developed a plan to complete the work.

## Recommendations

The Board should:

1. Develop a fund balance and reserve policy that establishes reasonable levels of fund balance to be maintained in each of the reserves and target amounts that are needed, funding sources and when the reserves will be used to meet the Town's needs.
2. Adopt comprehensive multiyear financial and capital plans to address the Town's needs.
3. Review all reserve funds and determine if they are legally established.

---

<sup>1</sup> See Appendix A.



4. Examine reserve balances and transfer any excess funds to unrestricted fund balance or other legally established reserves, where allowed by law.

**APPENDIX A**

**INFRASTRUCTURE PICTURES**

**Hallway between front door and bathroom**



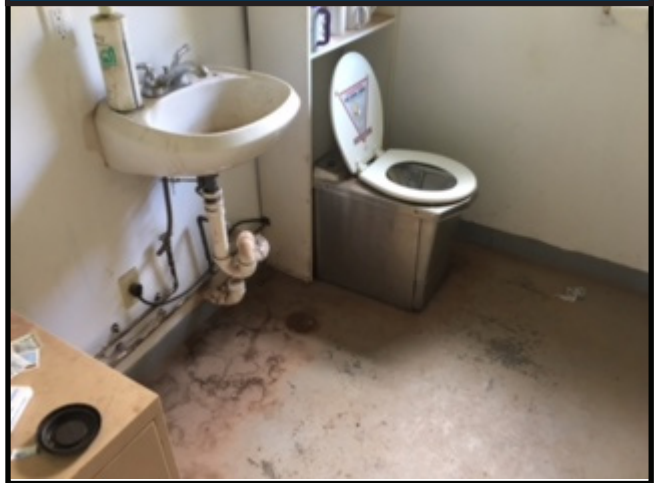
**Highway Superintendent's Office**



**Bathroom**



**Bathroom**



## **APPENDIX B**

### **RESPONSE FROM LOCAL OFFICIALS**

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

# TOWN OF KORTRIGHT

P.O. BOX 6, MAIN ST.  
BLOOMVILLE, NY 13739  
PH & FAX: (607) 538-9313

January 30, 2016

Office of the State Comptroller  
Todd Eames, Chief Examiner  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

**RE: Audit Report and Corrective Action Plan** for Audit Report Period Covering  
January 1, 2015 - August 25, 2016

Dear Mr. Eames,

This letter is in response to the recent audit of the Town of Kortright for the period of January 1, 2015 through August 25, 2016. The Town of Kortright Supervisor and the Town Board generally agree with the facts as presented in the draft audit report and will immediately act on the recommendations as made in this report.

As a corrective action the Town Board has begun a thorough review of all reserve accounts and has begun to work on the rewriting of fund balance and reserve policies to specifically address target amounts or balances to be carried in each reserve account as well as to document a well defined purpose for each of the named reserve accounts. The Supervisor has also directed the Highway Superintendent to utilize our

updated equipment and the highway inventory lists to create highway improvement and equipment plans that could be incorporated into the Town Board's development of a multi-year financial and capital plan to address not only the Highway Department's needs but any other town buildings and infrastructure. The Board plans to have any of the actions noted above in the Corrective Action Plan implemented by mid-summer of 2017.

The Board of the Town of Kortright wishes to thank the O.S.C. and staff for the audit performed. The staff seemed very knowledgeable and were extremely helpful in explaining the process to us. Thank you again.

---

George E. Haynes, Jr.  
Supervisor Town of Kortright

---

Margaret Kenyon  
Board Member

---

Lynn Pickett  
Board Member

---

Micheal Pietrantonio  
Board Member

---

Jeff Haynes  
Board Member

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials to gain an understanding of the Town's formal and informal long-term financial and capital plans.
- We reviewed the general and highway funds' fund balance from 2006 through 2015 and projected the 2016 fund balance using a budget status report as of December 31, 2016<sup>2</sup> to determine the amount of fund balance available for use.
- We observed the Town's buildings and equipment as well as the Town's road conditions to determine if moneys could be spent to maintain, repair or replace current infrastructure.

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.

---

<sup>2</sup> This report was provided to us on January 9, 2016 and as of that date the books were not closed.

## **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