

Town of Owasco

Financial Management and Procurement

AUGUST 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Town of Owasco

Audit Objectives

Determine whether the Town of Owasco (Town) Board (Board) effectively managed fund balances and reserves for the general, water and sewer district funds and has multiyear financial and capital plans.

Determine whether professional services and playground equipment were procured in a manner to ensure the prudent and economical use of public money in the best interests of the taxpayers.

Key Findings

The Board did not effectively manage fund balance and reserve levels, establish multiyear plans or ensure the proper procurement of professional services and playground equipment. The Board did not:

- Adopt an adequate reserve policy, resulting in the unrestricted general fund balance increasing to an excessive level.
- Always seek competition for professional services or have adequate written agreements for the services provided.
- Properly procure playground equipment totaling \$397,000.

Key Recommendations

- Develop and adopt a detailed and sufficient reserve policy.
- Develop policies and procedures for procuring and awarding professional service contracts.
- Ensure equipment is procured in accordance with applicable policies and statutes.

Town officials agreed with our findings and recommendations and indicated that they plan to take corrective action.

Background

The Town is located in Cayuga County. The Town provides various services to residents, including water, sewer, street maintenance, snow removal and general government support. The Town finances these services primarily through sales and use taxes, real property taxes and user rents and fees.

The Town is governed by an elected Board, which is composed of four Board members and the Town Supervisor (Supervisor). The Board is responsible for general management and control of financial affairs. The Supervisor, who serves as the chief executive and financial officer, is responsible for the Town's day-to-day management.

Quick Facts

For Year-End 2020

General Fund Balance	\$858,130
Water and Sewer Capital Reserves	\$687,107
Total Expenditures^a	\$3.08 million
a) General, Water and Sewer Funds	
Professional Services – 1/1/18 - 7/31/19	
15 Professional Service Providers	\$1.05 million
8 Providers - No Competition	\$206,742
6 Providers - Inadequate or No Written Agreements	\$99,398

Audit Period

January 1, 2016 – November 22, 2019. We extended the audit scope period to December 31, 2020 to perform additional financial trend analysis.

Financial Management

What Is Effective Financial Management?

A board is responsible for making financial decisions that are in the best interest of a town and its taxpayers. This includes planning for the future and setting long-term priorities and goals. A board also should retain a reasonable amount of fund balance (the difference between revenues and expenditures accumulated over time) for cash flow needs or unexpected expenditures. Determining a reasonable amount is dependent on the specific needs of each municipality. Without rationale for the amount deemed reasonable supported by long-term plans, it is difficult for a board and the public to judge if the amount is truly reasonable and not excessive or deficient.

While a board is legally allowed to establish reserve funds for certain future purposes (e.g., capital improvements and repairs), the amounts reserved should be reasonable, based on identified or planned needs. In addition, a board should ensure that fund balance appropriated for the next year's budget does not exceed the amount projected to be available or needed to provide cash flow and a cushion against unforeseen events.

Multiyear planning consists of several components including realistic budget estimates, multiyear financial and capital plans and fund balance and reserve fund policies. Such policies provide guidance on optimal funding levels for fund balance and reserves along with plans for circumstances when these funds may be used. Having a multiyear financial plan helps a board assess alternative approaches to financial issues, such as accumulating fund balance, obtaining financing, or using surplus funds to finance annual operations.

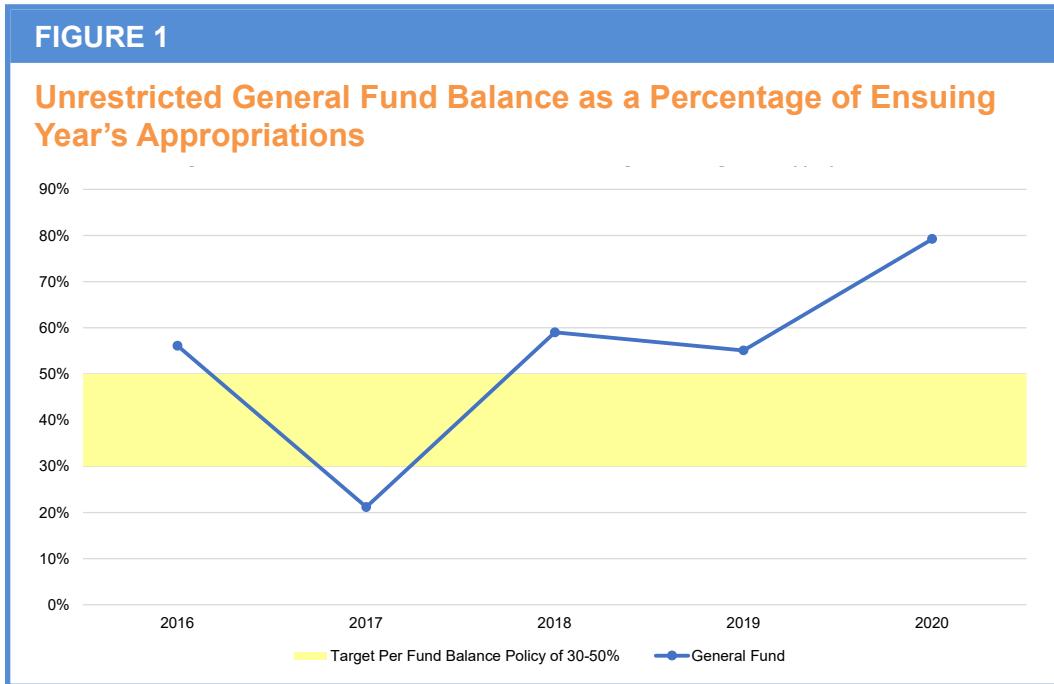
The Board Did Not Effectively Manage Fund Balance and Reserve Levels

The Board did not adopt a reserve policy to establish the Town's intentions for funding and using reserves. Further, it did not adopt a fund balance policy until November 14, 2019, following discussions between our audit staff and Town officials during the fieldwork phase of this audit. The Town's fund balance policy established a goal of retaining unappropriated fund balance that is between 30 to 50 percent of the subsequent year's appropriations in the general, highway and water funds, as well as in each of the three sewer districts. From 2016 through 2020,¹ unrestricted fund balance increased in the general fund by \$279,451 (48 percent) to \$858,130 due to inaccurate budgeting estimates. During this period, the Board appropriated fund balance totaling \$605,144 in the general fund, of which \$421,936 went unused due to operating surpluses or operating deficits that

As a result, general fund unrestricted fund balance levels were excessive.

¹ Based on preliminary/unaudited 2020 year-end figures, prior to adjustments and transfers.

were significantly less than planned. As a result, general fund unrestricted fund balance levels were excessive (Figure 1).



In 2016 and 2017, the Board chose to maintain a flat real property tax levy in the general fund, resulting in a levy of \$61,062 in each of these years. In 2018, the Town increased the general fund real property tax levy by 10 percent to \$67,162. However, according to Town officials, this increase was still not adequate to reduce reliance on appropriated fund balance or potentially fund reserves. Therefore, in 2019 the Board adopted a general fund real property tax levy of \$190,162, resulting in an increase from the prior year of \$123,000 (183 percent). The Board further increased the levy in 2020 to \$210,162 (11 percent) and eliminated its planned use of appropriated fund balance. While the tax levy increases in 2019 and 2020 were significant compared with prior years, the Board did not opt to fund reserves and instead maintained the excess balance in unrestricted fund balance. By not formally restricting fund balance, Town officials compromised transparency and cannot be assured that the excess funds they have accumulated will be used for intended purposes. Further, the balances in the four general fund capital reserves decreased during this two-year period to \$110,383.

While the unrestricted fund balance levels in the sewer and water funds have generally remained close to or within ranges established by the Town's fund balance policy, these funds lack adequate reserves when considering the

potential impact of significant infrastructure and equipment costs. Town officials established six reserves to finance future financial or capital needs, but based on discussions with Town officials, the balances in these reserves are likely not adequate. As of December 31, 2020, the Town had three sewer fund capital reserves totaling \$631,307² and three water fund capital reserves totaling \$55,800. Town officials stated that the Town's infrastructure and equipment is aged and in need of repairs or upgrades, most of which would result in significant costs which at present the Town is not adequately prepared for. Further, we could not assess whether these reserve balances were adequate, absent long-term financial and capital plans.

The Board Has Not Adopted Formal Multiyear Plans

The Board did not develop or adopt comprehensive, multiyear financial and capital plans. Such plans would be useful tools to outline the Board's intentions for financing future capital improvements and maintaining the existing infrastructure. The Board lacked certain information necessary to adequately adopt these plans, such as a comprehensive inventory of equipment and significant assets, and associated repair or replacement schedules and estimated costs. Town officials informed us that long-term planning is discussed but has not been formalized in a documented plan.

Without a multiyear financial plan, it is difficult for the Board to assess alternative approaches to financial issues, such as accumulating fund balance or using surplus funds to finance annual operations. Further, without multiyear capital plans, the Board is not fully aware of its long-term capital needs, including potential costs and funding sources to properly plan and monitor the Town's finances.

What Do We Recommend?

The Board should:

1. Adopt a comprehensive written reserve policy that clearly communicates the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund, the optimal or targeted funding levels and conditions under which each fund's assets will be used or replenished.

Town officials stated that the Town's infrastructure and equipment is aged and in need of repairs or upgrades, most of which would result in significant costs

The Board did not develop or adopt comprehensive, multiyear financial and capital plans.

² Including a Sewer Equipment Reserve (SD1)- \$358,684, Grinder Pump Reserve (SD2)- \$197,669, and a Grinder Pump Reserve (SD3)- \$74,954.

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2. Review all reserves and determine if the amounts reserved are adequate and reasonable.
 3. Develop and adopt comprehensive multiyear financial and capital plans for a three- to five-year period that assess long-term needs and alternative approaches to financial issues.

Procurement of Professional Services and Playground Equipment

How Should a Town Appropriately Procure Professional Services and Playground Equipment?

New York State General Municipal Law (GML) requires a board to adopt written policies and procedures for the procurement of goods and services, such as professional services, that are not subject to competitive bidding requirements. GML states that goods and services that are not required by law to be bid must be procured in a manner to ensure the prudent and economical use of public money in the taxpayers' best interests. It further provides that a board require in its policies and procedures, with certain exceptions, the use of alternative proposals through a request for proposals (RFP) process or quotations for such goods and services, including professional services. One exception is for circumstances when, or types of procurement for which, a board has determined alternative proposals or quotations will not be in a town's best interest.

While GML permits local governments to set forth in their policies the circumstances when or the types of procurements for which the local government has determined RFPs will not be in its best interests, using a competitive method such as an RFP process would help ensure that a board obtains needed qualified services upon the most favorable terms and conditions.

An RFP is generally a document that provides detailed information concerning the type of service to be provided, including minimum requirements and, where applicable, the evaluation criteria that will govern the contract award. Evaluation criteria can include factors in addition to price (e.g., experience, work plans and methodology to achieve desired results and estimated completion times). Furthermore, a written agreement is essential for establishing the professional services to be provided, the timeframes for those services, the basis for compensation and other terms and conditions.

A board is ultimately responsible for oversight of a town's capital projects and related procurements, such as the construction of a new playground. GML further requires a board to utilize competitive bidding to ensure the prudent and economical use of public money in a town's best interests. Initial estimated costs for capital projects must be realistic so a town can properly plan financing and keep taxpayers informed. A board should adopt resolutions authorizing the maximum estimated cost for the life of the project at its inception, as well as the sources of funding, and should prepare itemized project budgets. By doing so, a board will ensure transparency to the taxpayers and will provide a means for project cost control and performance measurement. The board may provide additional appropriations for a capital project, as needed, by formally amending the budget.

The Board Did Not Always Solicit Competition for Professional Services

The Town has an adopted procurement policy. However, the policy does not require soliciting competition, such as written proposals or quotations, when procuring professional services. The policy states that it may not be in the Town's best interest to solicit quotations or document the basis for not accepting the lowest bid in the case of professional services, but provides no additional information for how professional services shall be procured. In addition, officials have not developed formal procedures for seeking competition when procuring professional services, including what documentation should be maintained to support decisions. As a result, employees did not always seek competition when procuring professional services or document sufficient evidence to demonstrate whether the vendor selected was a prudent and economical use of public funds.

The Town procured professional services from 15 providers totaling approximately \$1.05 million during the period January 1, 2018 through July 31, 2019. We found that, while the Town sought competition for some services from certain vendors, no competition was sought for services provided by eight of the providers (53 percent) totaling \$206,742 (20 percent), including legal, information technology, engineering and auditing services. While Town officials provided explanations as to why they chose some of the service providers (e.g., sole source, limited timeframe to obtain service, past experience, specialized service), proper documentation of these explanations and the rationale was not consistently maintained along with how the Town complied with the spirit of GML. For those cases where evidence of competition being sought was available, it was often difficult for Town officials to locate supporting documentation.

Further, there were no written agreements with two providers (13 percent) and written agreements for portions of the services provided by four providers (27 percent), totaling \$99,398 (10 percent). The remaining \$945,793 (90 percent) paid for professional services was covered by an adequate written agreement, which outlined in sufficient detail the terms of service, including rates and timeframe. Additionally, through our review we found that one service provider's contract maximum amounts, totaling \$46,800, were exceeded for certain projects/engagements by a net total of \$34,220 (73 percent).

In general, we found that the professional services procured were for legitimate and appropriate Town purposes. However, when a competitive process is not used, the Board has less assurance that professional services are being procured with the most advantageous terms and conditions and in the taxpayers' best interest. Additionally, without written agreements detailing the type and timeframe of services to be provided and the compensation to be paid, the Town may not be receiving all of the agreed-upon services or could pay more for services than intended.

In addition, officials have not developed formal procedures for seeking competition when procuring professional services....

The Board Did Not Adequately Procure Playground Equipment

The Board did not appropriately procure equipment for the playground capital project, which is an Americans with Disabilities Act (ADA) compliant playground and splash pad. The Board did not advertise for bids for the equipment to construct the playground and splash pad, which at a total cost of approximately \$397,000 far exceeded the mandatory bidding thresholds. Town officials provided quotes obtained from two vendors, one for playground equipment and the other for splash pad equipment, along with documented correspondence from another agency in Oneida County that had constructed an ADA compliant playground recommending that particular vendor. Town officials stated that they purchased the equipment from the selected playground vendor because they were the only one that could provide the necessary ADA compliant playground equipment. However, no additional support was available to justify this assertion of a sole source provider. There was no additional explanation or support provided as to how or why the splash pad equipment vendor was selected.

Further, Town officials stated the original intent was to have the project be fully funded by grants and donations, with the erroneous belief that if this was the case then the project would not have to be competitively bid.³ However, as of October 2019, the Town used approximately \$185,000 of Town funds to pay for this project, or approximately 37 percent of the project's \$495,500 total cost.

What Do We Recommend?

The Board should:

4. Develop policies and procedures for procuring and awarding professional service contracts above a reasonable dollar threshold only after soliciting some form of competition and provide guidance as to how competition should be solicited.
5. Ensure that the Town has written agreements with all professional service providers detailing the types and timeframes of the services to be provided and compensation to be paid.
6. Ensure equipment is procured in accordance with policy and applicable statutes, and that relevant documentation is maintained.

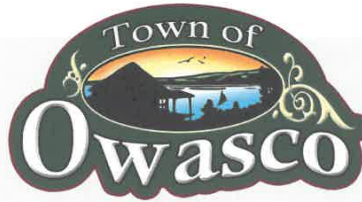
The Board did not advertise for bids for the equipment to construct the playground and splash pad, which at a total cost of approximately \$397,000 far exceeded the mandatory bidding thresholds.

³ Funds obtained by grants and donations constitute municipal money and, accordingly, expenditure of these funds is generally subject to the same statutory requirements (e.g., budgetary appropriation, audit of claims, competitive bidding) as other municipal revenues.

Appendix A: Response From Town Officials

Edward J. Wagner
Supervisor

Tammy Flaherty
Town Clerk



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Frederick Cornelius
Anthony Gucciardi
Tim Kerstetter
Michael Vitale
Council

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Division of Local Government and School Accountability
The Powers Building
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Rochester, NY 14614-1608

June 29, 2021

Dear Mr. Grant,

The Town of Owasco agrees with the findings of the Financial Management and Procurement audit that was presented to us on June 15, 2021. The Town of Owasco is in the process of drafting a corrective action plan for each of the OSC Audit recommendations. The Town Board along with the support and recommendation of Owasco Town Clerk and Bookkeeper will vote on that plan at a board meeting within the 90 day period of time as required. I will send a certified copy of the resolution with the action plan to you once the plan becomes official.

Respectfully,

Edward Wagner
Town of Owasco Supervisor

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objectives and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and employees to gain an understanding of financial processes, including budgeting and the procurement of professional services and equipment for the playground capital project.
- We reviewed relevant Board minutes, resolutions, adopted budgets, correspondence, policies and procedures.
- We reviewed the fund balance levels for the general, sewer⁴ and water funds for the fiscal years 2016 through 2020.
- We reviewed the 2016 through 2020 results of operations for the general, sewer and water funds to determine whether appropriate fund balance was needed to finance operations.
- We compared the general, sewer and water funds' budgeted revenues and appropriations to actual revenues and expenditures for 2016 through 2020 to determine whether budgets were realistic. Based on this analysis, we further determined which accounts contributed most to any significant budget variances and interviewed Town officials to gain additional perspective.
- We reviewed all 15 professional service providers paid a total of \$1.05 million during the period January 1, 2018 through July 31, 2019. We reviewed documentation to determine whether the Town was seeking competition in awarding contracts and used our collective professional judgment to determine whether the services procured were appropriate for a town. For those services where competition was not sought, we asked Town officials and employees for additional explanations.
- We determined whether the Town had written agreements with the professional service providers to indicate the type and timeframes of services to be provided and the compensation to be paid.
- We reviewed and summarized all expenditures related to the playground capital project.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁴ Includes Sewer Districts 1, 2 and 3.

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.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided 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 the CAP available for public review in the Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

<https://www.osc.state.ny.us/local-government/publications>

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

<https://www.osc.state.ny.us/local-government/publications>

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

<https://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf>

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

<https://www.osc.state.ny.us/local-government/publications>

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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