

Town of Pulteney

Financial Condition

JUNE 2021



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

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Report Highlights

Town of Pulteney

Audit Objective

Determine whether the Town of Pulteney (Town) Board effectively managed the Town's financial condition.

Key Findings

The Board did not effectively manage the Town's financial condition and was unaware of the Town's true financial position when it adopted budgets because it did not receive accurate financial information from the Town Supervisor (Supervisor).

We found the Board:

- Failed to implement our prior 2013 audit recommendation to appropriate fund balance only in amounts that are actually available, after retaining a reasonable amount for the next year.
- Appropriated more fund balance to finance operations than was available, resulting in the general and highway funds and water district beginning 2020 with budgetary deficits.
- Did not adopt realistic budgets for each fund from 2017 through 2020.
- Did not adopt a multiyear financial plan, capital plan or fund balance, reserve or budgeting policies.

Key Recommendations

- Adopt budgets based on accurate current data and historical trends.
- Establish fund balance, reserve and budgeting policies and develop multiyear financial and capital plans.
- Provide adequate oversight of the bookkeeper and provide municipal accounting training.

Town officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Town, located in Steuben County, is governed by an elected Town Board (Board) composed of four Board members and the Supervisor.

The Board is responsible for the general management and control of financial affairs, including adopting the annual budget and establishing financial policies.

The Supervisor, who serves as chief executive and fiscal officer and budget officer, appointed a bookkeeper to maintain the records and prepare financial reports on his behalf.

During our previous audit of the Town, we identified inaccurate adopted budgets resulting in budgetary deficits in the general and highway funds and fund balance deficits in the water district fund.

Refer to *Town of Pulteney – Financial Management and Information Technology* (2012M-177), issued in April 2013.

Quick Facts

2021 Appropriations

General Fund	\$465,081
Highway Fund	\$726,544
Water District	\$471,346

Audit Period

January 1, 2017 – February 23, 2021. We extended our audit period back to January 1, 2013 to review highway fund payroll.

Financial Management

What Is Proper Financial Management?

A board is responsible for making financial decisions that are in the best interest of the town and its taxpayers. To properly manage financial condition, a board should adopt reasonably estimated and structurally balanced budgets based on historical data or known trends. In preparing the budget, a board must estimate the amounts that will be spent and received and the amount of fund balance that may be available to fund appropriations.

A board should adopt multiyear financial and capital plans to set long-term priorities and help assess alternative approaches to financial issues, such as accumulating fund balance and obtaining financing or using available surplus funds to finance annual operations or establishing reserves for future capital plans (refer to our publications [Multiyear Financial Planning](#) and [Multiyear Capital Planning](#)). A fund balance policy, which provides guidance on how fund balance will be used, is an important component of a multiyear financial plan.

A board may retain a reasonable amount of fund balance for unforeseen circumstances and to provide cash flow – for example, to compensate for timing differences between revenues and expenditures. A board may appropriate a portion of fund balance as a financing source in the next year’s budget to reduce the tax levy. A board can also legally set aside or reserve portions of fund balance to finance future costs for a variety of purposes (for example, capital projects or equipment purchases), which should be considered when preparing multiyear financial plans.

These plans and policies are important planning tools for the board and an effective means of communicating the board’s goals and priorities to taxpayers. A town’s financial condition is a primary factor in determining its ability to continue providing services to residents.

The Board Did Not Properly Manage Fund Balance

The Town’s financial condition deteriorated because the Board was unaware of the Town’s true financial position when adopting budgets. The financial information provided by the Supervisor contained multiple recording errors that misstated the general and highway funds’ true financial position in 2019 and the general fund in 2020. Another contributing factor was the failure of the Board to adopt guidance such as fund balance, budgeting and reserve policies detailing the level of fund balance and specific reserves needed.

Board approved budget transfers were improperly recorded, and expenditures were recorded in accounts with available budget balances rather than making budget transfers to the proper accounts. Employees were incorrectly paid.

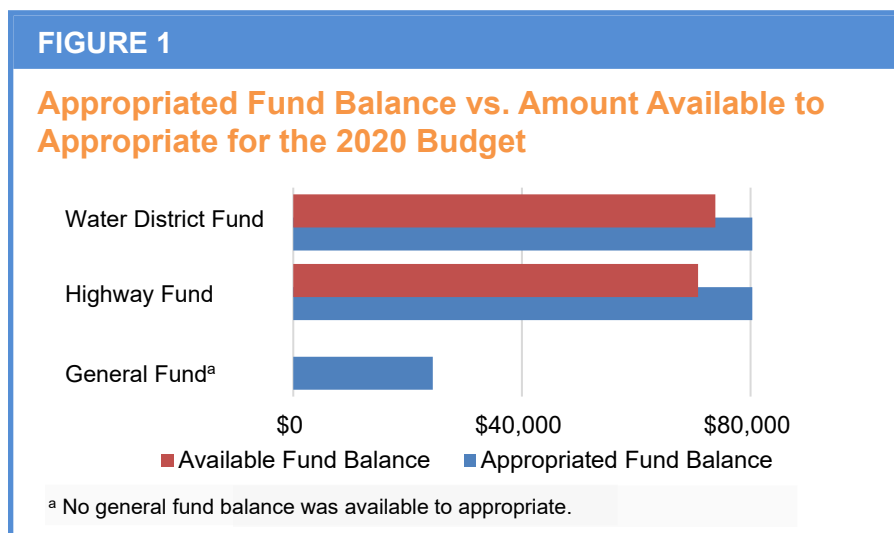
A board is responsible for making financial decisions that are in the best interest of the town and its taxpayers.

Revenues were also incorrectly recorded and, sometimes recorded to reduce expenditures rather than as a revenue.

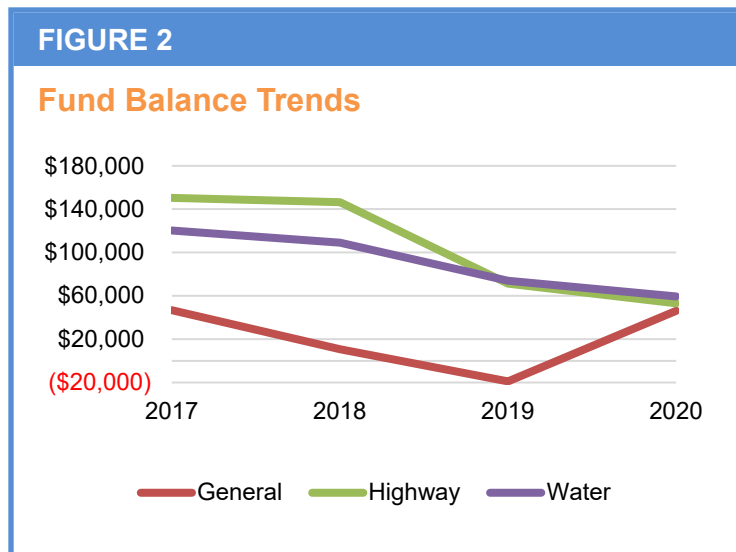
For example, we found that during 2019 and 2020:

- The Town received highway fund revenue from the Consolidated Highway Improvement Program (CHIPs) totaling \$184,610 in 2019, but only \$150,000 (the amount estimated in the budget) was recorded as a revenue in the highway fund. The remainder was used to reduce CHIPs expenditures by \$20,422 and personal services by \$14,188 that year.
- A 2019 highway fund cash transfer totaling \$17,000 was mistakenly made to the general fund and recorded as a revenue. In 2020, when the bookkeeper returned the money to the highway fund, she recorded this as a negative general fund revenue.
- A 2019 water district loan totaling \$32,000 to the general fund was recorded as a negative expenditure in the general fund. In 2020, when the bookkeeper returned the money to the water district, she recorded this as a general fund expenditure.
- Since 2014, two highway employees were inaccurately paid more than \$25,000 and one employee was underpaid by \$2,800. These errors occurred because the bookkeeper did not use the correct contractual rate increases when calculating payroll and represented 64 percent of the highway fund’s available fund balance at year end 2020.

Because of these errors, the Board lacked accurate information to assess historical results including available fund balance when planning future budgets. As a result, the Board appropriated fund balance that was not available to balance the budgets. For example, in 2020, appropriated fund balance exceeded available fund balance in the general, highway and water district funds resulting in each fund beginning 2020 with a budgeting deficit (Figure 1).



The budget deficits caused fund balances to decline for all three operating funds, emphasizing the need for accurate information on which to base decisions. Except for the general fund, fund balances declined each year (Figure 2). The general fund experienced an increase in 2020 only because of an unplanned operating surplus that year, which was partially attributable to an accounting error of \$23,132 when recording a reserve established for improperly exceeding the tax cap.



Board members told us they wanted to maintain minimal fund balances. However, minimal fund balances combined with inaccurate financial information limited the Board’s ability to effectively manage the Town’s financial condition.

While we commend the Board for taking measures to reduce spending after we notified them of their financial position (based on our review of the financial records through September 2020), intentionally using fund balance to finance operations is not sustainable over time because there is a limit to the amount available. With the shortages in appropriated fund balance in the highway and water district funds totaling \$91,700 and minimal general fund balance totaling \$46,200, it is possible the Town may run out of fund balance in 2021 unless the Board carefully monitors financial operations and reduces spending.

During our previous audit of the Town, we identified similar findings and stressed the importance of maintaining a reasonable fund balance and developing policies and procedures to give the Board guidance (refer to *Town of Pulteney – Financial Management and Information Technology* (2012M-177), issued in April 2013). Had the Board adopted a fund balance policy that established the levels of, and the rationale for, fund balance to be maintained within each fund, it would have provided guidance when developing the budget.

The Board Did Not Adopt Comprehensive Multiyear and Capital Plans

The Board did not develop written comprehensive multiyear financial and capital plans that set long-term objectives and goals. The Board also did not establish a reserve policy as a mechanism for planning to save money to finance all or part of future infrastructure, equipment or other needs. Such plans would be useful to outline the Board's intentions for financing future capital improvements and maintaining the existing infrastructure.

Currently, the Board has a list of highway equipment that estimates the year of needed replacement. According to Board members, the timing of equipment replacement is based on keeping any debt related to equipment purchases level to ensure that real property taxes remain consistent.

Without developing formal multiyear financial and capital plans, and establishing a reserve funds policy, which relate with these plans, the Board cannot adequately plan for the future needs and there is a risk that the Board's intentions for the Town will be unfulfilled.

We completed fieldwork in February 2021, during the COVID-19 pandemic. Given the financial effect of the pandemic, it is even more important for the Board to develop and monitor appropriate annual budgets and begin multiyear financial and capital planning.

What Do We Recommend?

The Board should:

1. Establish written policies and procedures governing the budgeting process, needed reserves and fund balance that defines the amounts of fund balance that the Town should reasonably maintain.
2. Adopt budgets estimates that are based on accurate current data and historical trends.
3. Develop comprehensive multiyear financial and capital plans that set long-term objectives and goals. These plans should be monitored and updated on an ongoing basis.
4. Seek to recover overpayments to highway employees and pay underpayment to one highway employee.

The Board did not develop written comprehensive multiyear financial and capital plans that set long-term objectives and goals.

The Supervisor should:

5. Provide adequate oversight of the bookkeeper, such as reconciling supporting documentation to collections deposited, recorded in the accounting system or included on the monthly reports, and provide municipal accounting training to the bookkeeper, which is available through OSC and can be accessed on our website at www.osc.state.ny.us/local-government/academy.
6. Review contracts and Board resolutions for pay rates before certifying payrolls for payment.

Appendix A: Response From Town Officials

TOWN OF PULTENEY
PO Box 214
Pulteney, New York 14874



Mark Illig, Town Supervisor
Erica Giambra, Town Clerk

Phone: 607-868-4222
Fax: 607-868-4010

Town of Pulteney Audit Response (2021M-24)

As Town Supervisor, I am providing our response to the recently completed Town audit and this is in regards to the Financial Audit portion of the Review.

1. **Fund Balance:** It is the priority of the Town Board to increase our annual tax rate to 2% or less as per guidance from NYS. With this restriction in increasing revenue, it will be slow process to increase the fund balance in the General and Highway accounts. It is our goal to increase the fund balance in these two accounts, to two months or average operating expenses, which will be \$77,513 for the General fund and \$121,090 for the Highway fund. We shall manage spending during the next three years, to build the fund balance in those accounts. Based on a three-year average of the Water District, we have determined that we will have a sufficient fund balance going forward. Our policy shall be to restrict spending in the fourth quarter of each year to enhance the fund balance. Each new budget will reflect a line item of available funds to build the fund balance for the General and Highway accounts. During the past three years, the General fund has incurred several large one-time expenses that will not occur in the future, which will enhance our spending levels going forward (consolidating all employees into the Town hall \$20k, paving parking lot and replacing the town hall roof \$35k, and rebuilding the Town tennis courts \$25K for a total of \$80k)
2. **Budget Estimates:** I have struggled in our budget estimates and going forward will use a combination of historic fourth quarter average spending and a more detailed estimate of spending to calculate a more accurate estimate of fund balances for the General and Highway accounts. This improved estimate will provide a better base line for preparation of the next budget.
3. We have depleted our capital fund over the past four years to complete the planned purchase of equipment for the Highway department. Work to reestablish fund balances will not begin until we establish sufficient fund balances in the General and Highway accounts. It will require fund balance building for budget years 2022 and 2023 to reach our goals for the fund balance. Once we achieve the fund balance objectives, we will develop a plan for a Highway capital reserve fund. It is not part of the Town's five-year plan to establish a capital plan for the General fund. For the Highway department, the Town has established an equipment replacement program based on the projected life of all large items (trucks, plows, and

equipment that requires replacement) and based on our lease to own program with our bank, we have a plan for replacement. We will not have more than two loan payments of \$60k in the Highway budget at any time and will with those funds and loan timeframe, we can replace needed equipment.

4. **Overpayments and underpayments to Highway Employees:** As part of the audit process we have confirmed the amount of payments to these three employees. In regards to the overpayment, we have concluded that the Town Board established salary increases to two employees that were in excess of the union contract agreement. It was further discovered that at the time, the existing Town Board did not document the change nor pass a formal Resolution to confirm the action. In the future, if any arrangement is proposed to change the contract agreement with our union employee's we shall follow proper procedures to implement the change. Based on our error in procedures, the Town Board has decided that the overpayment error rests with the previous Town Board and will not pursue reimbursement from the employees. Within 90 days, the Town Board will rectify the underpayment and pay the employee the money owed.
5. **Provide Adequate Oversight:** We have confirmed that in the case of non-routine accounting transactions, we have made several errors in the process. In the future, when we need to perform an accounting transaction, we will research the transaction with the proper resources to ensure that the transactions are properly performed. Also, the Town Supervisor will develop a written training program with the Bookkeeper to ensure we are current on all accounting functions.
6. **Pay Rates:** As part of the budget process, the Town Board decides on the salary increases for all employees, not covered by our union contract with the highway employees. We shall institute a review of salary increases for our union employees as part of the budget process. As mentioned in section 4 of this response, if the Town Boards decides to increase salaries of union employees beyond the contract, we will follow proper procedures to reflect those changes.

Respectfully Submitted,

Mark E. Illig

Pulteney Town 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 objective¹ and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and reviewed Board minutes to gain an understanding of operations and the budget process and to determine whether the Board adopted relevant policies and multiyear plans.
- We reviewed the general, highway and water district funds for 2019 through September 2020 to determine whether they matched adjusted cash receipts and disbursements.
- We recalculated revenues, expenditures and fund balance for 2019 and 2020 to determine whether any accounting errors were recorded in revenues and expenditures that needed correction.
- We determined whether the amount of appropriated fund balance budgeted from 2017 through 2021 was available to fund operations and how much was actually used from 2017 through 2020.
- We compared highway employee pay rates to contractual rates from 2013 through 2020 to determine whether highway employees were accurately paid.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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.

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 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.

¹ We also issued a separate audit report, *Town of Pulteney – Information Technology* (2021M-28).

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>

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Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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

Local Government and School Accountability Help Line: (866) 321-8503

ROCHESTER REGIONAL OFFICE – Edward V. Grant Jr., Chief Examiner

The Powers Building • 16 West Main Street – Suite 522 • Rochester, New York 14614-1608

Tel (585) 454-2460 • Fax (585) 454-3545 • Email: Muni-Rochester@osc.ny.gov

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