

# Town of Maryland

## Financial Management

---

SEPTEMBER 2018

---



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

# Contents

---

|  |          |
|--|----------|
| <b>Report Highlights</b> . . . . .   | <b>1</b> |
| <b>Financial Management.</b> . . . . .   | <b>2</b> |
| Why Are Fund Balance and Reserve Policies and Multiyear<br>Plans Important?. . . . .   | 2        |
| The Board Did Not Adopt a Fund Balance and Reserve Policy<br>or Long-Term Financial and Capital Plans but Is Developing a<br>Comprehensive Plan. . . . . | 2        |
| What Do We Recommend? . . . . .  | 5        |
| <b>Appendix A – Response From Town Officials</b> . . . . .   | <b>6</b> |
| <b>Appendix B – Audit Methodology and Standards</b> . . . . .  | <b>7</b> |
| <b>Appendix C – Resources and Services.</b> . . . . .  | <b>8</b> |

# Report Highlights

## Town of Maryland

### Audit Objective

Determine whether the Board established a fund balance and reserve policy and multiyear financial and capital plans to address the Town's operational and capital needs.

### Key Findings

- Since 2015, the total combined fund balance in the general and highway funds increased by \$450,000 and, as of December 31, 2017, was 83 percent of 2017 expenditures.
- Over the last three years, conservative budgeting led to combined overestimated expenditures of \$495,000 and underestimated revenues of \$226,000 in the general and highway funds which contributed to the surpluses generated.
- Officials have not developed multiyear financial or capital plans to address significant infrastructure and equipment needs.

### Key Recommendations

- Develop and adopt a fund balance and reserve policy that establishes the level of fund balance and reserves to be maintained.
- Adopt budgets that include realistic estimates for revenues and expenditures.
- Develop and adopt a comprehensive multiyear financial and capital plan.

### Background

The Town of Maryland (Town) is located in Otsego County.

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 operations, including adopting the annual budget and establishing financial policies. The Supervisor serves as the chief executive and chief fiscal officer. The Town's Highway Superintendent, a separately elected official, is primarily responsible for the maintenance and repair of Town roads and bridges.

#### Quick Facts

|   |               |
|---|---------------|
| Population  | 1,897         |
| 2018 General and Highway Fund Budgeted Appropriations | \$1.2 million |
| 2018 General and Highway Fund Tax Levy                | \$700,354     |

### Audit Period

January 1, 2015 – April 12, 2018

# Financial Management

---

## **Why Are Fund Balance and Reserve Policies and Multiyear Plans Important?**

The board is responsible for making financial decisions that are in the best interest of the town and its taxpayers. 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 and reserve policy that addresses the appropriate level of fund balance for each fund and reserves to be maintained from year-to-year provides the board with guidelines to use during the budget process. If fund balance levels become excessive, funds that could benefit the town are not being used, thereby placing an unnecessary burden on taxpayers.

The board should adopt a fund balance and reserve policy to establish the levels of fund balance to be maintained and the reserves to be funded and used. In addition, the board should create comprehensive multiyear financial and capital plans that set long-term 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. These plans and policies are an important planning tool for the board and an effective means of communicating the board's goals and priorities to taxpayers.

## **The Board Did Not Adopt a Fund Balance and Reserve Policy or Long-Term Financial and Capital Plans but Is Developing a Comprehensive Plan**

The Board did not adopt a fund balance and reserve policy to establish the levels of fund balance to be maintained and the reserves to be funded and used. However, the Board is developing a comprehensive plan to identify and address the Town's future financial and capital needs.

From January 1, 2015 to December 31, 2017, combined total fund balance in the general and highway funds increased by \$450,155 (112 percent). During this period, the Board appropriated \$337,400 of fund balance. However, the Town experienced operating surpluses each year. Therefore, the appropriated fund balance was not needed to finance operations

**Figure 1: Combined General and Highway Fund Balances**

|   | 2015        | 2016        | 2017        |
|---|-------------|-------------|-------------|
| Beginning Total Fund Balances   | \$403,292   | \$559,138   | \$688,418   |
| Planned Operating Surplus/(Deficit)   | (\$25,884)  | (\$76,312)  | (\$235,220) |
| Results of Operations   | \$155,846   | \$129,280   | \$165,029   |
| Ending Total Fund Balances  | \$559,138   | \$688,418   | \$853,447   |
| Ensuing Year's Appropriations   | \$1,195,804 | \$1,361,251 | \$1,209,513 |
| Ending Total Fund Balances as a Percentage of Ensuing Year's Appropriations     | 47%         | 51%         | 71%         |
| Less: Restricted Fund Balances  | \$138,269   | \$195,945   | \$288,077   |
| Ending Available Fund Balances  | \$420,869   | \$492,473   | \$565,370   |
| Ending Available Fund Balances as a Percentage of Ensuing Year's Appropriations | 35%         | 36%         | 47%         |

The appropriated fund balance was not used because of the Board's conservative budgeting practices. For example, the Board overestimated expenditures for the general and highway funds by a combined total of \$495,217, or 13.6 percent, over the last three years. These variances were primarily driven by overestimating contingency appropriations by \$128,921 (100 percent) and garbage appropriations by \$63,144 (23 percent) over this period. Moreover, the Board underestimated revenues for the general and highway funds by a combined total of \$225,793 (7 percent) over this same period. These variances were primarily driven by underestimating sales tax by a total of \$38,506 (21 percent) and mortgage tax by a total of \$25,618 (85 percent).

According to the Supervisor, Town officials overestimated expenditures and underestimated revenues in order to generate operating surpluses to intentionally build up fund balance and reserves for future needs. For the 2018 budget, Town officials have reduced the contingency appropriation to \$10,000 – a reduction of \$32,974 from the prior three-year average of \$42,974 – but garbage appropriations remain higher than historical expenditures. Town officials increased revenue estimates in the 2018 budget for sales tax and mortgage tax to levels more in line with historical revenues and reduced the amount of fund balance appropriated to \$45,000 – a reduction of \$67,472 from the prior three-year average of \$112,472.

As part of their plan to address future financial and capital needs, Town officials have properly established capital reserves in the general and highway funds. They told us they have concerns about current and upcoming financial and capital needs, as follows:

- 
- The highway fund requires over \$200,000 in operating cash each year to cover the delayed reimbursements from the Consolidated Local Street and Highway Improvement Program (CHIPS) and PAVE-NY Initiative<sup>1</sup> and also for delays in reimbursements for the Town's contract with Otsego County for snow and ice removal.
  - The highway garage is in need of replacement. Town officials have not formalized any plans for constructing a new garage at this time or determined how much it will cost.
  - Town officials want to build a Town Hall to centralize operations. For example, the Town Clerk and justice court are housed in a rented space, and the Assessor's and Supervisor's offices are in a separate building. Although officials have discussed building a new Town Hall and a new highway garage at the site of the current highway garage, other than the establishment of a \$40,000 building reserve in 2017, no formal plans have been made and officials have not determined how much this will cost.
  - The Town is solely responsible for maintaining three bridges – two of these bridges are rated structurally deficient by the New York State Department of Transportation (NYSDOT). After consulting with hired engineers, Town officials have estimated it will cost approximately \$2.7 million to replace both bridges and told us they plan to obtain grant funding to replace the bridges.
  - The Highway Superintendent told us the Town's CHIPS revenues allow him to pave approximately two to two and one-half miles of roads per year. Without any additional funding from the Town for additional miles of roads paved per year, this would equate to repaving each of the 46 miles of paved Town roads every 18 to 23 years. According to the Highway Superintendent, the roads should be resealed every five years and repaved every 10 to 15 years.<sup>2</sup> However, due to a lack of budgeted funds, the Town has fallen behind on resealing thereby decreasing the length of time the paving will last.
  - The highway equipment is aging with several pieces needing to be replaced in the near future. For example, a 10-year-old dump truck requiring significant engine repair needs to be replaced for the 2018-19 plowing season with a cost estimated by the Highway Superintendent of \$100,000. See Figure 2 for additional details.

---

<sup>1</sup> The PAVE-NY Initiative is a NYSDOT program that assists municipalities with the rehabilitation and reconstruction of local highways and roads.

<sup>2</sup> NYSDOT requires that all repaved roads funded through CHIPS last at least 10 years.

**Figure 2: Age of Major<sup>a</sup> Highway Equipment**

| Type       | Age (Years) | Useful Life <sup>b</sup> (Years) | Years Over/(Under) Useful Life |
|------------|-------------|----------------------------------|--------------------------------|
| Dump Truck | 2           | 12                               | (10)                           |
| Dump Truck | 2           | 12                               | (10)                           |
| Dump Truck | 8           | 12                               | (4)                            |
| Dump Truck | 10          | 12                               | (2)                            |
| Dump Truck | 13          | 12                               | 1                              |
| Dump Truck | 19          | 12                               | 7                              |
| Grader     | 26          | 20                               | 6                              |
| Roller     | 20          | 20                               | 0                              |
| Loader     | 5           | 15                               | (10)                           |
| Backhoe    | 14          | 15                               | (1)                            |
| Average    | 11.9        | 14.2                             | (2.3)                          |

a Major highway equipment includes dump trucks and the road maintenance and repair equipment listed. It does not include the Town's pickup trucks, two tractors or the 29-year-old backup dump truck.

b This is the optimal useful life as defined by NYSDOT. It is intended as a guide. Municipalities should develop their own estimates of useful life based upon their individual experience.

Town officials have expressed the desire to keep taxes at their current levels. They have raised the levy by a total of approximately \$15,000 (2.2 percent) over the last four years while increasing available fund balance and funding the building and truck reserves. Because Town officials have identified several significant financial and capital needs, developing a fund balance and reserve policy and formal long-term financial and capital plans would help the Board fund those projects and needs and provide more transparency to Town taxpayers.

## What Do We Recommend?

The Board should:

1. Adopt budgets that realistically reflect the Town's operating needs based on historical trends or other known facts.
2. Adopt a comprehensive fund balance and reserve policy that addresses the Town's budgeting practices and establishes the levels of fund balance and reserves to be maintained.
3. Develop and adopt a comprehensive multiyear financial<sup>3</sup> and capital plan<sup>4</sup> to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

3 <http://www.osc.state.ny.us/localgov/pubs/lmg/multiyear.pdf>

4 [http://www.osc.state.ny.us/localgov/pubs/lmg/capital\\_planning.pdf](http://www.osc.state.ny.us/localgov/pubs/lmg/capital_planning.pdf)

# Appendix A: Response From Town Officials

---

Town of Maryland  
40 Main Street  
Schenevus, NY 12155

## **What The Auditors Recommend:**

### The Board should:

1. Adopt budgets that realistically reflect the Town's operating needs based on historical trends or other known facts.

### Our Response and CAP

The Audit brought to our attention that we should not include funds designated for future grant projects and large equipment purchases in our budget. We had already started to change the past practices with our 2018 budget, and will work to adjust the 2019 budget that we are developing now.

2. Adopt a comprehensive fund balance and reserve policy that addresses the Town's budgeting practices and establishes the levels of fund balance and reserves to be maintained.

### Our Response and CAP

I agree with this advice. We had a list of what the town needs with a rough idea of what the cost of each project would be. As we work on the budget we will also work on a comprehensive fund balance and reserve policy. At this time, the Town is redoing our comprehensive plan. This will give us an idea of any other items that we might want to add to the list.

3. Develop and adopt a comprehensive multiyear financial and capital plan to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

### Our Response and CAP

This goes along with the comprehensive fund balance and reserve policy. After we have created a comprehensive fund balance and reserve policy, the Board will have monthly reports on each project in our policy. Our goals will be an estimated cost, funds origination, and date to start and complete each project.

Harold L. Palmer  
Supervisor  
Town of Maryland  
607-638-9013



## 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 objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials to gain an understanding of the budget process and to determine whether the Board adopted fund balance and reserve policies and multiyear financial and capital plans.
- We reviewed the general and highway fund balance for 2015 through 2017 to analyze the dollar and percentage increases over the three-year period.
- We reviewed the 2015 through 2017 general and highway funds' results of operations to determine whether appropriated fund balance amounts were needed to finance operations.
- We compared the 2015 through 2017 general and highway fund's budgeted revenues and appropriations to actual revenues and expenditures for 2015 through 2017 to determine whether budgets were realistic.
- We compared the 2018 general and highway fund's budgeted revenues and appropriations to 2017 actual revenues and expenditures and to the previous three-year averages to determine whether the 2018 budget was realistic.
- We reviewed 2015 through 2017 revenues and expenditures to determine which categories contributed the most to the Town's budget-to-actual variances. We interviewed the Supervisor to identify reasons for significant budget variances.
- We compared the general and highway fund balances to the Town's actual expenditures and budgeted appropriations from 2015 through 2017 to assess the reasonableness of fund balance levels.
- We interviewed Town officials and observed the Town's infrastructure and equipment to determine current and long-term capital needs. We verified the listed age of equipment by tracing to New York State vehicle registrations.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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 Town Clerk's office.

## Appendix C: Resources and Services

---

### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

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

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

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

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

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

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

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

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

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

[www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

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

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

## 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](mailto:localgov@osc.ny.gov)

[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

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

---

**BINGHAMTON REGIONAL OFFICE** – Ann C. Singer, Chief Examiner

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel (607) 721-8306 • Fax (607) 721-8313 • Email: [Muni-Binghamton@osc.ny.gov](mailto:Muni-Binghamton@osc.ny.gov)

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



Like us on Facebook at [facebook.com/nyscomptroller](https://facebook.com/nyscomptroller)

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)