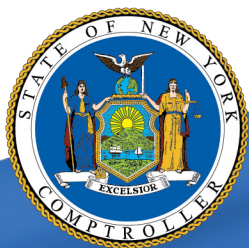


Town of Nanticoke

Financial Condition Management

JANUARY 2018



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

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Report Highlights

Town of Nanticoke

Audit Objective

Determine whether the Board effectively managed the Town’s financial condition.

Key Findings

- Budgeted general fund appropriations exceeded expenditures by an annual average of 15 percent for the last three years
- The general fund’s year-end fund balance increased by 75 percent over the past three years.
- Town officials have not developed a written multiyear financial or capital plan or a fund balance policy.

Key Recommendations

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

Appendix A includes the Town’s response to this audit. Except as indicated in Appendix A, Town officials generally agreed with our recommendations. Appendix B includes our comment on the Town’s response.

Background

The Town of Nanticoke is located in Broome 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 affairs, including adopting the annual budget and establishing financial policies. The Supervisor serves as the chief executive and chief fiscal officer and budget officer.

Quick Facts

Population	1,600
2017 General Fund Budgeted Appropriations	\$399,228

Audit Period

January 1, 2016 – May 15, 2017

We extended our audit period back to January 1, 2014 and forward to May 31, 2017 to analyze financial trends.

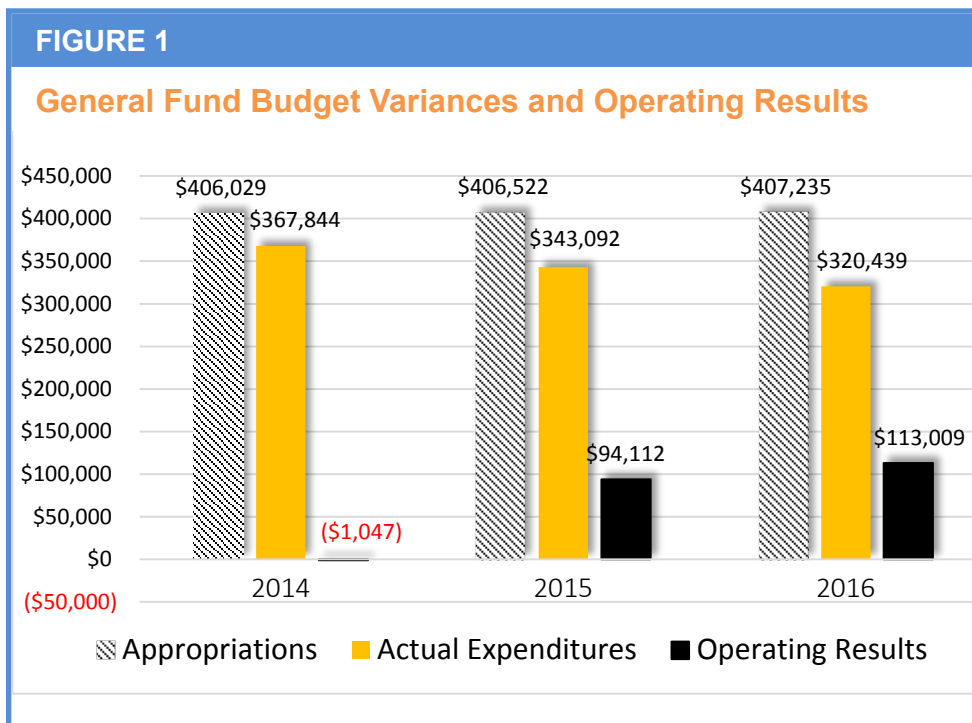
Financial Condition Management

How Does a Board Effectively Manage Financial Condition?

The Board is responsible for making financial decisions that are in the best interest of the Town and its taxpayers. The Board may retain a reasonable portion of fund balance for unforeseen circumstances and to provide cash flow – for example, to compensate for timing differences between when revenues are received and expenditures are made. A multiyear financial plan helps the Board assess alternative approaches to financial issues, such as accumulating fund balance, obtaining financing or using surplus funds to finance annual operations. A fund balance policy, which provides guidance on how fund balance will be used, is an important component of a multiyear financial plan. The Board can legally set aside or reserve portions of fund balance to finance future costs for a variety of purposes (for example, capital projects or equipment purchase expenditures), which should be considered when preparing multiyear financial plans. Sound budgeting practices help ensure that estimates of revenues and expenditures are reasonable and based on historical or known trends.

The Board Adopted Budgets with Unrealistic Estimates, Which Increased Fund Balance

The Board did not effectively manage fund balance. From 2014 through 2016, budgeted appropriations exceeded expenditures, resulting in the accumulation of excess fund balance in the general fund (Figure 1).



Budgeted general fund appropriations exceeded actual expenditures by an annual average of \$62,800 (15 percent) or over \$188,000 over the last three years combined. Operating surpluses totaled \$206,000 from 2014¹ through 2016.

These variances were primarily driven by overestimates for ambulance contracts (totaling \$39,000, or 21 percent over the three-year period), unallocated insurance (totaling \$24,000, or 13 percent), building and equipment repairs (totaling \$22,000, or 12 percent), and retirement (totaling \$20,000, or 11 percent). The Supervisor told us that the Town's ambulance services contract had changed in the last several years and that he may not have fully understood the changes. Additionally, the Board budgeted approximately the same amounts for unallocated insurance and building/equipment repair each year even though the Town expended, on average, \$8,000 and \$7,000 less than budgeted each year, respectively.

As of December 31, 2016, the fund balance in the general fund had increased 75 percent, to over \$482,000, from approximately \$275,000 in 2014. The Supervisor told us he recognized the fund balance was high but did not realize how much it had increased. He told us the Board plans to use about \$200,000 of fund balance for Town Hall repairs and renovations in 2018. However, this will not result in a significant reduction in fund balance levels. Moreover, the Board has not developed a fund balance policy or comprehensive multiyear financial and capital plans specifying the Town's objectives and goals for using the accumulated funds.

We project the Town will end the 2017 fiscal year with another operating surplus; this time totaling almost \$100,000, which will further increase fund balance. The Board's budgeting practices, combined with significant fund balance levels, place an unnecessary tax burden on Town residents. Multiyear plans, properly established and budgeted reserve funds and a fund balance policy would provide more transparency to Town residents on the Board's strategy for addressing the excessive fund balance.

What Do We Recommend?

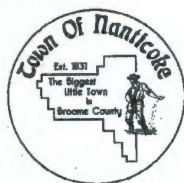
The Board should:

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

¹ The 2013 year-end fund balance was \$276,368.

-
2. Reduce the amounts of the general fund's fund balance and use the excess funds as a financing source in a manner that benefits Town residents. Such uses could include, but are not limited to:
 - Funding one-time expenditures;
 - Funding needed reserves;
 - Reducing real property taxes.
 3. Adopt a comprehensive fund balance policy that addresses the Town's budgeting practices and establishes the levels of fund balance to be maintained.
 4. 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.

Appendix A: Response From Town Officials



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PO Box 71
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Donald Benjamin, Supervisor

December 9, 2017

Office of the State Comptroller
Division of Local Government & School Accountability
PSU-Cap Submission
110 State Street, 12th Floor
Albany, NY 12236

Re: Financial Condition Management Audit #2017M-186

To whom it may concern:

I would like to start off by complementing the staff that performed the Town of Nanticoke Financial Condition Management Audit. They were very professional, respectful and most of all helpful.

In addressing the findings I think it is important to look at the towns budgeting process and how the extra funds gathered at year end. Most of the extra money in the town's general fund was due to more income coming in from Broome County Sales Tax and Broome County Landfill tipping fees. We receive projections for the upcoming year for both and budget the revenues modestly, expecting to hit or be slightly under the projection totals. Over the last three years these revenues have been over budget by an average of roughly \$52,000.00. There has also been an issue with one of the Ambulance providers that resulted in a \$27,000.00 overage each of these years (this issue has been correct). These added incomes combined average \$77,000.00.

See
Note 1
Page 6

We will be spending between \$150,000.00 - \$200,000.00 in 2018 on Town Hall upgrades and repairs. In 2019 we look to spend the same amount on the other town owned buildings.

Going forward the town will reduce and or eliminate the town tax if the general fund reaches \$700,000.00. This policy will be effective immediately. This letter serves as the audit response and the CAP.

Sincerely,

Donald Benjamin
Town of Nanticoke Supervisor

This communication and any files or attachments transmitted with it may contain information that is confidential, privileged and exempt from disclosure under applicable law. It is intended solely for the use of the individual or the entity to which it is addressed. If you are not the intended recipient, you are hereby notified that any use, dissemination, or copying of this communication is prohibited by federal law. If you have received this communication in error, please destroy it and notify the sender.

Appendix B: OSC Comment on the Town's Response

Note 1

While revenue variances, such as those pointed out, averaged under 4 percent, expenditure variances averaged over 15 percent. Although unanticipated revenues had some effect, the overly conservative budgeting for expenditures resulted in the accumulation of excess fund balance.

Appendix C – 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, we performed the following audit procedures:

- We interviewed Town officials to gain an understanding of the budget process and to determine whether the Board adopted budgeting and fund balance policies and multiyear financial plans.
- We reviewed the Board minutes and spoke to Town officials to determine what reports were provided to the Board.
- We reviewed the 2014 through 2016 general fund results of operations.
- We compared the general fund's estimated revenues and appropriations in the original budget to the actual revenues and expenditures for 2014 through 2016 to determine if total estimated revenues and appropriations were realistic.
- We reviewed 2014 through 2016 expenditures to determine which expenditure 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 general fund estimated revenues and appropriations in the current 2017 budget with the budgets for the previous two fiscal years.
- We analyzed the trend in total fund balance in the general fund for 2014 through 2016.

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 D: Resources and Services

Regional Office Directory

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

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

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

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

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

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

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

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

Contact

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