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March 20, 2015

Stuart L. Yetter, Jr., Supervisor
Members of the Board
Town of Newark Valley
109 Whig Street
Newark Valley, NY 13811

Report Number: P4-14-3

Dear Mr. Yetter and Members of the Board:

A top priority of the Office of the State Comptroller is to help town officials manage their resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support town 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 town assets.

In accordance with these goals, we conducted an audit of nine towns throughout New York State. The objective of our audit was to determine whether towns properly managed the condition of their roads. We included the Town of Newark Valley (Town) in this audit. Within the scope of this audit, we examined the Town's road maintenance plan and work performed on the Town's roads for the period January 1, 2013 through March 1, 2014. Following is a report of our audit of the Town. 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 report of examination letter contains our audit results specific to the Town. We discussed the findings and recommendations with Town officials and considered their comments, which appear in Appendix A, in preparing this report. Town officials generally agreed with our recommendations and indicated they will take corrective action. At the completion of our audit, we prepared a global report that summarizes the significant issues we identified at all nine towns audited.

Background and Methodology

The Town is located in Tioga County, has a population of 3,946 and covers 50 square miles. The Town is governed by a five-member Board. The Town's Highway Superintendent is a separately elected official. The current Highway Superintendent has been in office since 1985.

The Highway Superintendent is primarily responsible for the maintenance and repair of Town highways and bridges and the removal of obstructions caused by brush and snow. The Highway Superintendent generally has the power to hire, subject to appropriations established by the Board, and direct Highway Department employees for those purposes. The Town has 66 miles of roads, including 20 miles of unpaved sections. Each year, the Board and Highway Superintendent sign an agreement (Agreement) for amounts to be spent for the repair and improvements of Town roads. In 2014, the Town budgeted \$610,000 for the highway fund of which \$500,000 is for road maintenance.

To complete our objective, we interviewed Town officials, reviewed the Town's road maintenance plan (Plan) for adequacy and reviewed available information to verify that the Plan was implemented. We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS).

Audit Results

No one can determine if the Town properly managed its roads because the Highway Superintendent did not ensure that the goals, methodologies and inventories were fully documented and included important details about road histories and conditions. In order to maintain the Town's inventory of roads at a level of quality he deemed acceptable, the Highway Superintendent established an informal methodology to surface-treat roads every seven to 10 years and pave them every 20 years. While we project it will cost about \$2 million to provide repairs to the Town roads in order to get them free of observable defects, the Town's 2014 adopted budget includes \$500,000 for road repair and maintenance, roughly a quarter of the need we identified through our survey. If the Highway Superintendent, in conjunction with the Town Board, chooses to defer the necessary road maintenance, this financial liability will continue to grow. Establishing clear goals and expectations, supported by the multiyear projection of maintenance and repair needs, would have better assisted the Highway Superintendent and Board in spending the available funding in the most efficient way possible.

Road Maintenance Plan – A formal long-term schedule (Plan) should be created based on the goal, methodology and inventory that identify when roads will be worked on and how this work will be funded. The Board is responsible for the oversight and funding of this Plan. A good Plan starts with the Highway Superintendent and the Town Board determining a level of quality road conditions they deem as acceptable for travel within their Town.¹ Once such a goal is set, officials should develop a methodology for achieving that goal and a road inventory that includes essential information such as surface type, average daily traffic (ADT), road importance,² history of work done on the road and each road's current condition.

The Highway Superintendent had his own expectations for the quality of the road surfaces in the Town. He employed a routine of applying surface treatments every seven to ten years for the roads to last 20 years, regardless of ADT or road importance, before needing to be reconstructed. The Board was aware of the Highway Superintendent's approach to managing the Town's road

¹ Formally adopting a goal for the Plan will provide taxpayers transparency about the plans for roads, as well as a tool for communication between the elected Board and the Highway Department.

² The importance of a road is generally determined by the location of emergency services or other facilities, or locations with crucial transportation needs (e.g., commercial districts, schools).

infrastructure, but did not officially adopt such plans and ensure that the taxpayers were properly informed.

The Town's inventory of roads was a complete list of Town roads and showed each road's surface type. However, the inventory did not include the type of work (surface treatment or reconstruction), years that work had been performed, ADT, importance or current condition of the roads. In addition, the Highway Superintendent developed only an annual schedule of repairs, included in the Agreement (which specifies amounts to be spent), instead of a long-term schedule forecasting repairs for the entire inventory.

The Highway Superintendent told us his inventory did not include ADT or importance because he believed his visual inspection of road condition each year was a better indication of what work needed to be performed than these factors. In addition, he did not create a long-term schedule because of difficulties in estimating projected costs due to material cost fluctuations. While a visual inspection is useful in assessing the current conditions, additional consideration of ADT and importance will provide additional insights to underlying risks that may not be revealed with just a visual inspection.

Without a formally established, comprehensive Plan – which should not be constrained by the annual agreed-upon costs for road maintenance, per the Agreement, but instead reflect the full life cycle and costs of the road inventory – neither the Board nor taxpayers can be assured that Town money is being spent in the most responsible manner. For example, a comprehensive Plan would show the Board and taxpayers the total annual cost to repair Town roads every seven to 10 years, regardless of a given road's ADT. A proper inventory and associated records help support the continuance of a properly developed Plan. This becomes especially important when there is turnover in the Highway Superintendent position. Moreover, a long-term Plan enables the Board to plan for proper funding of future improvements. While prices for highway maintenance and construction materials have fluctuated, a long-term plan could include assumptions of future increases or a range of possible prices.

Monitoring and Implementation – Monitoring the Plan consists of periodically assessing the condition of the roads to determine if changes are needed to the schedule and then reviewing the annual Agreement between the Highway Superintendent and the Board to ensure it agrees with the road work listed on the schedule. Finally, implementation of the Plan involves both the Highway Superintendent and the Board ensuring that the work was done to the roads as planned and that any discrepancies are fully explained.

The Highway Superintendent told us he assessed annually the condition of the roads for defects and created the Agreement for the current year based on this assessment in line with his established practices and methodology. However, because his assessments were not documented, he did not provide us with any evidence to this effect. Although the Board participates in a selection of road condition assessments, without a documented long-term plan, the Board could not ensure the annual Agreement was in the best interests of the Town's road inventory and taxpayers.

We were not able to determine if road work done was consistent with the Highway Superintendent's stated approach because he did not maintain complete records. We analyzed all available work logs but could not determine what section of the roads were maintained or the type of maintenance performed on the roads (i.e., preventive maintenance or paving).

We surveyed the physical condition of all 66 miles of roads within the Town in April 2014 using information provided by the Cornell Local Roads Program.³ This information included various types of techniques that could be used to bring the roads to a defect-free condition. We chose the technique (i.e., rehabilitation, overlays, surface treatment) that would fix all the noted defects. We then calculated an estimated financial liability by applying the average cost⁴ of methodologies within each technique (i.e., cold mix asphalt, chip seal) that our towns used to the number of miles that we deemed needed work. We determined the Town would need to spend approximately \$2 million to repair all Town roads. This estimated financial liability⁵ represents the funds necessary in order to have the roads free of observable defects. Of this liability, approximately \$1.75 million includes paving which would make the roads brand new, while \$200,000 includes preventive and routine maintenance which would allow defects to be temporarily fixed and extend the life of the road. The Highway Superintendent and Board may determine that a level of quality less than defect-free is acceptable. In that case, the amount of work required may be less. If Town officials decide that having their roads defect-free is an unattainable or unnecessary goal, they should establish a level of service for their roads and adjust this liability figure accordingly. The adopted budget for the 2014 fiscal year provides funding of \$500,000. The need for repair and improvement of the Town's roads will continue to grow if not adequately addressed. Maintaining proper records and a long-term Plan will enable the Town to invest its limited funds in the most cost-effective manner.

Recommendations

1. The Highway Superintendent should maintain a more comprehensive and accurate road inventory that includes ADT, road importance, previous maintenance work by section and current condition of the roads.
2. The Board should adopt a formal long-term Plan that includes a goal for the quality of Town roads and a methodology for achieving that goal.
3. The Highway Superintendent should develop a long-term schedule based on the goal, methodology and inventory that shows when each road will be worked on and how this work will be funded.
4. The Highway Superintendent and the Board should ensure that the annual Agreement is in compliance with the long-range Plan, and that any deviations from the Plan should be explained.

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. For more information on preparing and filing your CAP,

³ The Cornell Local Roads Program is a Local Technical Assistance Program Center sponsored by the Federal Highway Administration and the New York State Department of Transportation providing training and technical assistance to local highway and public works officials in New York State.

⁴ The average cost range is +/- 20 percent.

⁵ This liability figure uses CLRP pricing which is derived from statewide average of costs for materials, labor and equipment. To derive the Town's actual liability, Town officials should adjust this figure based on their actual costs.

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.

We thank the officials and staff of the Town of Newark Valley for the courtesies and cooperation extended to our auditors during this audit.

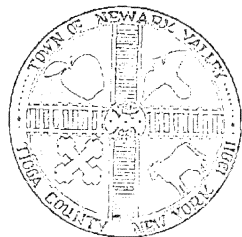
Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

The Town officials' response to this audit can be found on the following page.



TOWN OF NEWARK VALLEY

109 Whig Street
 Newark Valley, New York 13811
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July 29, 2014

H. Todd Eames, Chief Examiner
 State Office Building, Suite 1702
 44 Hawley Street
 Binghamton, NY 13901-4417

Dear Mr. Eames:

The Town Board and the Highway Superintendent have reviewed and discussed the preliminary audit report of the town's highway records. We feel that the records of the highway department can be improved and will work with the Superintendent of Highways to achieve that goal. We also feel that the communication between the board and the Highway Superintendent is adequate.

Newark Valley is a small rural town with low traffic. Most roads are traveled regularly by both the Superintendent of Highways and Town board members resulting in a good working knowledge of the roads and their conditions. Based on the input from the public it is felt the level of maintenance of our roads is consistent with the needs of our local taxpayers. In an ideal world we could find our road liabilities at 100% for 0 defects. However, I don't believe any level of government today is able to 100% fund highways at a level of 0 defects. Many years ago at a Cornell Highway School the premise was put forward that the goal of a local roads program was "to provide a reasonably safe road for a reasonably competent driver at a reasonable cost to the taxpayer". I believe we are doing that.

Sincerely,

Stuart L. Yetter, Jr.
 Supervisor
 Town of Newark Valley