

Town of Bennington

Financial Management

MARCH 2020



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

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Report Highlights

Town of Bennington

Audit Objective

Determine whether the Board and Town officials properly managed finances by ensuring budget estimates were realistic, establishing multiyear financial and capital plans and planning for and using fund balance.

Key Findings

- Overall the Board could have improved its financial management. It did not appropriately budget for certain expenditures and did not properly monitor spending during the year.
- The highway fund had deficit fund balances during our audit period and incurred operating deficits in two of the past three years (2016 and 2017).
- The Board did not develop and adopt comprehensive written multiyear financial and capital plans to help guide the budget development process or establish reserve funds to help finance future capital needs.

Key Recommendations

- Review budget to actual reports and past trends to develop budgets based on prior actual results and expected future changes.
- Develop and adopt comprehensive written multiyear financial and capital plans.
- Consider establishing and funding needed reserves.

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

Background

The Town of Bennington (Town) is located in Wyoming County. The Town provides various services to its residents, including road maintenance, snow removal and fire protection.

The Town is governed by an elected Town Board (Board) composed of five members including the Town Supervisor (Supervisor). The Board is responsible for the general oversight of operations and finances.

The elected Highway Superintendent (Superintendent) is responsible for the largest portion of the Town's overall budget and for overseeing highway department operations.

Quick Facts

Population	3,300
2019 General Fund Appropriations	\$464,862
2019 Highway Fund Appropriations	\$1.13 million

Audit Period

January 1, 2016 – November 21, 2019

Financial Management

What is Proper Financial Management?

A town's financial condition is a primary factor in determining its ability to continue providing services to residents. A board is responsible for adopting realistic budgets based on historical trends and other known factors to help ensure that recurring revenues finance recurring expenditures and a reasonable fund balance is maintained as a cushion for unforeseen expenditures and cash flow.¹ A town with sound financial health can maintain sufficient cash flow to pay bills and other obligations when they become due without relying on other resources, such as one-time revenues or fund balance, which can indicate a deteriorating financial condition.

To maintain good fiscal health, it is imperative that town officials adequately plan for current and future operating and capital needs. This can be accomplished, in part, by creating a comprehensive written multiyear financial plan which, when updated and properly used, allows officials to identify developing revenue and expenditure trends, set long-term priorities and goals, avoid potential large fluctuations in real property taxes and assess the effect their decisions will have on fund balance levels.

A reasonable, stable fund balance is one element of effective long-range planning. A board can also legally set aside, or reserve, a portion of fund balance to finance future costs for specific purposes (e.g., capital improvements or vehicle replacements). Properly funded reserves can reduce reliance on debt to finance capital projects and other acquisitions and can help town officials finance the costs of capital expenditures.

The Board Can Improve Budgeting Practices

We evaluated the financial condition of the general and highway funds for 2016 through 2018 and found that the Board could have improved its financial management. The Board did not appropriately budget for certain expenditures and did not properly monitor spending during the year.

Highway Fund – The highway fund incurred operating deficits of \$12,000 in 2016 and \$65,000 in 2017 and had to rely on interfund advances from the general fund to finance necessary road repairs and improvements. This occurred because officials did not budget a sufficient amount for road maintenance and improvements. Appropriations for road maintenance and repairs were underestimated by approximately \$190,000 (68 percent) in 2016 and \$137,000 (46 percent) in 2017.

¹ Fund balance is the difference between revenues and expenditures accumulated over time.

The Supervisor and Superintendent told us that road repair expenditures exceeded appropriations in 2017 due to unanticipated road damage caused in part by excessive rainfall and flooding. However, they were unable to provide an explanation for the budget shortfall that occurred in 2016.

The highway fund realized an operating surplus of \$64,000 in 2018 and will likely realize another small operating surplus in 2019 because appropriations for road repairs and improvements were more in line with actual expenditures. However, the Supervisor told us that the Town does not have a multiyear plan to assist in budgeting.

Additionally, the Superintendent did not have a plan or schedule for necessary road maintenance and improvements. New York State Highway Law requires that the Superintendent and Board enter into an agreement each year regarding expenditures for the repairs and improvements of Town roads.² Such an agreement should include a schedule or plan detailing the specific work to be performed in the coming year and gives the Board the ability to monitor such activity. While the Town had the annual agreements on file, the agreements did not include specific schedules or plans detailing the work to be performed.

Despite the operating surplus in 2018, the highway fund still owed the general fund \$150,000 as of December 31, 2018, with no ability to repay the money advanced. The highway fund repaid the general fund \$50,000 in April 2019 but in October 2019, the Board approved a permanent transfer from the general fund to the highway fund writing off the \$100,000 remaining balance. The highway fund's reliance on the general fund for cash flow and operating shortfalls could contribute to the deterioration of the general fund's financial condition.

General Fund – General fund revenues were overestimated by approximately \$72,000 over the three-year period (2016 through 2018) or on average \$24,000 (7 percent) each year while appropriations were overestimated by approximately \$216,000 or on average \$72,000 (21 percent) each year. These budgeting practices had an overall positive impact on the general fund's financial condition creating a cumulative operating surplus totaling \$155,000.

The general fund realized operating surpluses of \$113,000 in 2016 and \$95,000 in 2017 but incurred an operating deficit of \$53,000 in 2018. The deficit occurred because officials did not properly plan for or budget sufficient appropriations for roof replacement and repairs costing more than \$137,000. Officials budgeted only \$66,000 for the roof project in the 2018 adopted budget.

Additionally, officials overestimated total revenues by \$43,000 or 9 percent because they anticipated receiving \$60,000 in grant revenues to help finance the roof project. The Town was awarded a grant in October 2016 but these funds

² New York State Highway Law, Section 284

were to be provided as a reimbursement once the Town had completed the project. As of December 2019, the Town still had not received the grant funds and the Town had to use a portion of its fund balance to help offset the revenue shortfall in 2018.

The Supervisor submitted a monthly financial report to the Board showing monthly bank balances, revenues and expenditures, but did not provide the Board with monthly budget status reports comparing actual financial activity to budget estimates. As a result, the Board's ability to review historical trends and improve future budgeting estimates was diminished.

Further, officials did not usually make budget modifications during the year and the Board did not approve budget modifications at its meeting throughout the year, which resulted in negative budgetary accounts. Without monthly budget reports, the Board is unable to properly monitor the Town's financial condition or adequately plan for the ensuing year's budget.

The Board Did Not Establish Multiyear Financial, Capital Plans or Reserve Funds

The Board adopted budgets focused on the immediate needs of general governance and highway services and did not develop or adopt comprehensive written multiyear financial and capital plans to help guide the Board and Town officials on how they may consider financing specific future costs. Such plans could be useful tools to outline the Board's intentions for financing future capital improvements and maintaining the existing infrastructure.

Although the general fund appeared to have sufficient fund balance for general governance needs, the highway fund had almost no fund balance as of December 31, 2018. Total fund balance in the general fund was approximately \$358,000 or nearly 77 percent of 2019 general fund appropriations while total fund balance in the highway fund was about only \$4,000 or less than .5 percent of highway appropriations.

The combined total fund balance of approximately \$362,000 is approximately 23 percent of the general and highway funds combined budget of \$1.6 million and may prove insufficient for future highway equipment and capital needs. Officials have not set money aside for capital expenditures and historically budgeted only \$16,000 for contingencies each year.

The Board has not established any reserve funds as a mechanism for saving money to finance all or part of future infrastructure, equipment or other needs. The Board should consider establishing reserves, in particular capital and repair reserves, especially considering the Town's capital needs.

In 2018, the Town issued debt to purchase a new dump truck for the highway department costing approximately \$250,000. We found that the three remaining dump trucks were on average 11 years past their useful life and may need to be replaced soon. The Town also has approximately 66 miles of roads, 26 of which are stone and dirt, which the Superintendent told us are in need of much improvement. The Superintendent obtained a proposal for the necessary road improvements and found that the Town would have to finance up to \$12.5 million to upgrade and repair existing roads.

The Town's tax levy increased by approximately \$179,000 or 21 percent from 2015 through 2019. The largest real property tax increases occurred when the Board increased taxes \$66,000 or nearly 8 percent in 2017 and \$83,000 or 9 percent in 2018.

Comprehensive written multiyear financial and capital plans can help the Board more effectively manage fund balance and assess alternative approaches to financial issues, such as raising real property taxes or using fund balance to finance annual operations. Further, the plans can assist with properly addressing long-term capital needs.

What Do We Recommend?

The Board should:

1. Request budget to actual reports from the Supervisor monthly and review spending trends to develop budgets that are based on prior actual results and expected future changes.
2. Review monthly budget status reports and approve budget transfers in a timely manner to prevent expenditures from exceeding available appropriations.
3. Require the Superintendent to include a schedule or plan specifying the work to be performed when developing the annual highway agreement.
4. Develop multiyear financial and capital plans to help ensure that financial resources are available to replace capital assets in a timely manner.
5. Consider establishing reserves, as part of its long-term planning efforts, to set aside funds for identified future expenditures. When establishing reserves, clearly establish the purpose, planned uses and desired funding level of each reserve.

Appendix A: Response From Town Officials

TOWN OF BENNINGTON

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March 5 , 2020

Jeffrey D. Manzula, Chief Examiner
Office of the State Comptroller – Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo New York 14203-2510

Dear Mr. Manzula:

The Bennington Town Board has received the draft findings of the audit performed on Town operations during the period January 1, 2016 through November 21, 2019. Board members each had the opportunity to review the report and offer the following comments.

The Town, as always, appreciates the efforts of the Comptroller's Office during these audits to assist our community in improving government, fiscal responsibility and necessary checks and balances. Of particular note, I would like to thank both the auditor and his Supervisor for their assistance during the audit period in answering questions regarding both the audit as well as other financial reporting, and in identifying several areas of costs savings for the Town. This was greatly appreciated.

As was noted during the audit, we experience financial challenges, particularly in our Highway Department, in the ability to provide necessary services with revenues that are primarily dependent upon rural residential property taxes and uncertain state aid. Our Highway Department budget is comprised of three main areas of expenditures – personnel/fringes, equipment costs, and operating expenses (materials.) As noted in the report, we have a fleet of equipment that is aging and beyond, and we have downsized our crew numbers during the past two decades in efforts to target funds toward materials and equipment upgrades. Despite this and also due to the high volume of roads we have (many of which are dirt/gravel), we stretch our budget thin, and when catastrophic weather events occur, it takes several years to recoup our footing from the costs of damages

The Board's current involvement in budget monitoring includes monthly meetings with the Highway Superintendent during our workshop session, reviewing the work done and planned for the upcoming month, any large expenditures and issues that impact the budget. He also meets weekly with the Supervisor and reviews any road or equipment issues, related expenses and what

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will be needed during the month. We will be developing a plan to put additional reviews in place to document the budget impacts of these issues and decisions. The annual agreement for highway repairs has been completed in general terms during the past, as emergency repairs have frequently changed the “game plan” for work outside of the CHIPS funded scope. This was understood to be common practice by other Highway Departments, but we can change this for the future and detail the planned work for the year.

I apparently did not communicate well to the auditor the process we use in developing the annual budgets. The current year’s revenues and expenditures to date (Jan – Aug) are combined with the prior year’s data (Sept – Dec) as well as a review of any one-time only amounts such as insurance payments, major purchases, etc. Minutes are reviewed for any major expenditures that have not been paid to date. Collective bargaining agreement wage changes and anticipated fringe costs are built into the budget. The Tentative Budget is then reviewed with Board members and discussion is held on projects for the year – building improvements, vehicle/equipment purchases, transfer station operations, fee schedule reviews – and associated costs built in. The Board then also looks at the increase to the tax levy and the impact on the tax cap, and make adjustments necessary to provide a reasonable tax levy for the services to the community. This is the point where the difficulties with our funding needs for the Highway Department vs. a reasonable tax levy occur. The Board reviews several options on levy and tax rates and presents a Proposed Budget for public hearing and adoption based on our best judgement. I would also like to note that Wyoming County, unlike some other Counties in New York State, does not share sales tax revenues with Towns/Villages/School Districts, which further limits our revenue sources.

All Board members participate monthly in auditing and approving expenditures, with questions to the Supervisor, Clerk and Highway Superintendent. At that time, the Superintendent also provides information on planned expenditures for the next projects. This occasionally gets superseded by emergency repairs to roads, equipment and buildings where decisions are made by the Supervisor and Superintendent. As always, public and employee safety are our priority in decision-making.

The Town has explored multi-year planning and budgeting. For three years, we budgeted and set aside \$20,000 for improvements to the transfer station to make it more economically viable. Although this was not formally put into a reserve fund, the Board members are all aware and have included it in several meeting minutes that the amount existed and its purpose. With the closure of the transfer station, we are exploring related ways to spend down the funds – electronics collection, etc. – that would benefit all town residents, prior to making any decision to roll the funds into the General Fund unappropriated fund balance for future use. The Town also explored developing a long term plan for road improvements with our attorney, our financial

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consultant and our materials supplier. The amount of funds needed was both daunting (\$12.5 million, minimum) and beyond our legal ability to borrow. The Town will be working with the County Real Property Tax Office in 2020 and 2021 to perform a property revaluation, which will also provide better information for possible future borrowing. We are deliberating on contracting with Cornell University for an engineering student to perform both an analysis of the roads and our budget and a prioritization of the best use of the dollars available over the course of the next few years. Significant long term borrowing would also put constraints on annual budgets in the future as we pay off long term debt. Most equipment purchases are significant in cost, and we participate in bonding for purchases over \$100,000 in order to lessen the one-time impact on budgets and tax levies. We can certainly formalize this policy and practice.

Again, the Town Board appreciates the review and comments of the audit in assisting us in managing our Town. We will be utilizing the suggestions to help develop long range planning and more timely budget modifications, and have received OSC guidance on financial reports and their uses that can be included on a monthly basis to each Board member.

The Town will be developing and providing a corrective action plan to the OSC within the 90 day timeframe regarding the recommendations made.

Sincerely,

Ellen M Grant
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 objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and reviewed Board minutes, resolutions and policies and procedures to gain an understanding of Town operations and officials' oversight responsibilities regarding budgetary and fiscal control and to determine whether written multiyear financial and capital plans were developed and adopted and used during the budget development process.
- We prepared budget-to-actual comparisons for general and highway fund revenues and appropriations to assess whether adopted budgets were reasonable and whether specific revenues were consistently and significantly overestimated.
- We analyzed the financial records for 2016 through 2018 to determine the results of operations in the general and highway funds. We reviewed the adopted 2019 budget to assess whether revenue and appropriation estimates were reasonable.
- We reviewed budget modifications and interfund activity to determine whether they were appropriate and properly approved. We compared 2016 through 2018 budget to actual reports to identify trends and changes in budgeting practices and operating results and its impact on fund balance.

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.

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 Town Clerk's office.

Appendix C: 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/pubs/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/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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