



Town of Candor

Fund Balances

Report of Examination

Period Covered:

January 1, 2011 — April 8, 2014

2014M-157



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2014

Dear Town Officials:

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

Following is a report of our audit of the Town of Candor, entitled Fund Balances. 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 General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of Candor (Town) is located in Tioga County, has a population of approximately 5,000 residents and includes the Village of Candor within its boundaries. The Town provides various services for its residents, including street maintenance, justice court and general government support. The Town's 2014 budget of \$2.3 million is funded primarily with real property taxes, sales tax and State aid. These revenues and expenditures are accounted for in four major operating funds: general town-wide, highway town-wide, general part-town and highway part-town.

The Town is governed by an elected Town Board (Board) comprising the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for the day-to-day management of the Town, including performing basic accounting functions and maintaining accounting records, under the direction of the Board.

Objective

The objective of our audit was to examine the Town's financial activities. Our audit addressed the following related question:

- Did the Board and Supervisor properly manage the Town's fund balances?

Scope and Methodology

We examined the Town's financial activities for the period January 1, 2011 through April 8, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

Comments of Town Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as noted in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

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, pursuant to Section 35 of the 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 this plan available for public review in the Town Clerk's office.

Fund Balances

Fund balance represents moneys accumulated from prior fiscal years. The Town may retain a reasonable portion of fund balance to be available in the event of unforeseen circumstances and to provide cash flow to compensate for timing differences between receipts and disbursements. The Board may also establish and place moneys into reserves to finance the future costs of a variety of items or purposes. The Board should adopt long-term financial and capital/infrastructure plans that set forth the Town's objectives and goals, as well as written policies and procedures to govern the level of fund balance maintained in each fund and how reserves will be funded and used.

The Board and Supervisor are not properly managing the Town's fund balances. From fiscal years 2011 through 2013, fund balance available for use in each of the four major operating funds has either increased significantly or remained at a high percentage of the ensuing year's budget, as detailed in Table 1.

Table 1: Fund Balance by Fund			
General Town-Wide			
Fiscal Year	2011	2012	2013
Fund Balance Available for Use	\$443,665	\$659,398	\$989,133 ^a
Ensuing Year's Budget	\$652,764	\$512,551	\$661,159
Percentage of Ensuing Year's Budget	68%	129%	150%
General Part-Town			
Fiscal Year	2011	2012	2013
Fund Balance Available for Use	(\$432)	\$12,523	\$25,167
Ensuing Year's Budget	\$83,110	\$83,756	\$87,416
Percentage of Ensuing Year's Budget	(1%)	15%	29%
Highway Town-Wide			
Fiscal Year	2011	2012	2013
Fund Balance Available for Use	\$161,035	\$292,458	\$238,629
Ensuing Year's Budget	\$852,720	\$753,506	\$738,106
Percentage of Ensuing Year's Budget	19%	39%	32%
Highway Part-Town			
Fiscal Year	2011	2012	2013
Fund Balance Available for Use	\$190,977	\$530,807	\$536,738
Ensuing Year's Budget	\$857,980	\$824,864	\$828,106
Percentage of Ensuing Year's Budget	22%	64%	65%
^a The increase in fund balance from 2012 to 2013 is due to money being transferred from the capital projects fund to the general town-wide fund for the highway barn project.			

In addition, the Board has not adopted long-term financial and capital/ infrastructure plans to set forth the Town's objectives and goals. The Board also has not established any policies or procedures to govern the level of fund balance to maintain for each fund.

- General Town-Wide Fund – Although the Board told us it has plans to finance a \$1.4 million highway barn project (Project) with the majority of this fund balance, it has not established a formal plan or reserve for this purpose. Furthermore, the Board does not know how much will be available to use towards the Project as this is dependent on various other factors, such as potential bridge repairs (the Town may have to transfer money to the highway town-wide fund to cover the cost) and whether the Town will realize an operating surplus for the 2014 fiscal year. The Board also has no formal financial strategy to rebuild fund balance after the Project is completed.

- General Part-Town Fund – There are currently no plans for the use of the fund balance. The 2013 and 2014 budgets each included \$10,000 for contingencies. However, with the current fund balance level, there is no need to continuously budget for an additional contingency line item because fund balance could cover such unexpected expenditures.
- Highway Town-Wide Fund – The Supervisor told us that he plans to use available fund balance to finance future equipment needs. At the end of 2013, the Board established an equipment reserve; however, as of May 2014, the Board still has not provided funding for this reserve. There is also no formal documentation of future equipment needs.
- Highway Part-Town Fund – The Supervisor told us that he had planned to use available fund balance to pay for upcoming bridge repairs, if it was legally acceptable to do so. However, expenditures for bridges must be made from the highway town-wide fund.

The Board appropriated fund balance (planned deficits) totaling \$756,000 for fiscal years 2011 and 2012 for these four major operating funds. However, the funds generated surpluses totaling over \$850,000 during this period due to unrealistic revenue and expenditure estimates. Therefore, the Board did not actually use the appropriated fund balance as intended. As a result, fund balance continued to increase each year while the real property taxes in both town-wide funds increased \$8,500, or 1 percent, and real property taxes in both part-town funds increased \$30,000, or 12 percent, thereby placing an unnecessary burden on the taxpayers.

While the 2013 and 2014 budgets contained more reasonable revenue and expenditure estimates and did not include any appropriated fund balance, operating surpluses totaling almost \$400,000 still occurred in 2013 mainly due to one-time revenues, such as insurance recoveries, that were not budgeted for. Furthermore, in fiscal year 2014, the Supervisor reallocated the real property taxes across the tax bases to provide more revenue to the general fund and properly account for highway department payroll, which resulted in real property taxes in both town-wide funds increasing \$98,000, or 8 percent, and real property taxes in the part-town funds decreasing \$98,000, or 36 percent.

Although Town officials told us about their various financial and capital/infrastructure plans for these excess fund balances, as discussed previously, the Board has not formally documented any of these plans or set aside funds in reserves for these purposes.

Therefore, these funds remained as excess fund balance, causing tax increases to appear unnecessary. Without formal financial and capital/infrastructure plans, it is difficult to portray transparency of the Town's financial position and the intended purposes of accumulated fund balances.

Recommendations

The Board should:

1. Develop a fund balance policy that establishes reasonable levels of fund balance to be maintained in each fund in order to meet the Town's needs,
2. Adopt comprehensive multiyear financial and capital plans, including when to use accumulated fund balances in a manner that will benefit taxpayers and
3. Formally establish authorized reserves to finance certain anticipated future expenditures and adopt a policy to establish funding and use of the reserves.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

The local officials' response to this audit can be found on the following pages.



Town of Candor

101 Owego Road
Candor, New York 13743

Bob Riggs, Supervisor
Councilmen:
Joe Bish
Matt Crowe
George Williams
Bill Strosahl

July 11, 2014

Office of the State Comptroller
Division of Local Government
and School Accountability

Re: Town of Candor Fund Balances Report of Examination

Dear Sir/Madam:

The Candor Town Supervisor and Town Board members are all committed to prudently managing tax dollars. We all believe that since tax dollars are taken from our citizens with the force of law, we have a most solemn obligation to insure that we spend every cent efficiently and only for the benefit of our citizens. We are also all committed to transparency in government. After all, we are public servants and we emphasize **servant**. We are here to **serve** our citizens and not to dictate to them or follow any self-serving agenda. To that end, we have a few concerns about the conclusions you draw from the resent audit.

1. On page five of your report you state that, "The Town may retain a reasonable portion of fund balance to be available...." Despite our best efforts, we have been unable to find any law defining exactly what portion is a "reasonable portion". Your help would be appreciated.
2. Regarding the concerns about the various fund balances, we are in the midst of a town barn building project the Town has been planning for almost twenty-four years. We would very much like to fund as much as possible of the estimated \$1.4 million with available funds and at the same time leave us on sound financial footing going forward. We have been reluctant to tie up funds in reserves until we can get definitive answers about how some of those funds can be used. Whenever we have asked for guidance from your office we have often received conflicting advice. For example, we once heard that maintenance of bridges (5120) could be taken from either the part-town (DB) or town-wide (DA) fund. The latest answer is town-wide (DA) only, but we have no guarantee that is the final answer. We were also lead to believe that snow removal (5142) had to come from the town-wide (DA) fund, but recently we have learned it can come from either town-wide (DA) or part-town (DB).
3. Regarding the concerns about the 2011 and 2012 budgets, we cannot take credit for anything in those budgets. They were prepared by the previous Town Supervisor and Town Board, only two of whom are on the current board. We can take credit for the under-spending in the 2012 budget which we inherited because it is always our policy to cut costs and reduce spending where possible, if it can be done so without

See
Note 1
Page 12

See
Note 2
Page 12

sacrificing services.

4. At the bottom of page six you allude to tax increases. There have been no tax increases since the current administration came to power on January 1, 2012. We inherited a property tax levy of \$1,430,887 in 2012 and that is exactly what we requested in 2013 and 2014.

See
Note 3
Page 12

Going forward this Town Board is committed to doing more and more with less and less. It is our aim to continue to conduct the Town's business as efficiently and openly as possible. Only when we believe that the costs of necessary services have gone up for reasons beyond our control or some new service appears to be needed would we consider raising taxes. To date our citizens appear to overwhelmingly support this philosophy as well as our manner of governance.

It is our desire to not only make our citizens happy but to do so in accordance with the law, so your advice is greatly appreciated.

Thanks

Robert A. Riggs
Town Supervisor
Town of Candor

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

The Board should determine what it considers to be a reasonable level of fund balance. Please refer to the OSC July 2001 accounting release entitled “Budgeting and Fund Balance Legislation” which provides factors to consider for maintaining a reasonable amount of fund balance (surplus) along with pertinent legal citations. This bulletin can be found at <http://www.osc.state.ny.us/localgov/pubs/releases/budfund.htm>.

Note 2

We have provided Town personnel with various publications to assist you with these questions. Please see our *Local Government Management Guide - Reserve Funds* for specifics on how reserve funds can be used, and Chapter 4 of the *Accounting and Reporting Manual* outlines what expenditures should be charged in the highway funds. These publications can be found at <http://www.osc.state.ny.us/localgov/pubs/lgmg/reservefunds.pdf> and <http://www.osc.state.ny.us/localgov/pubs/arm.pdf>.

Note 3

While the overall levy may not have increased, due to the re-allocation of expenditures across funds, taxpayers in the town-wide tax base (for general and highway funds) paid an increase of 8 percent in 2014.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the Town's financial activities. To accomplish our objective and obtain valid audit evidence, we performed the following audit procedures:

- We calculated the results of operations for 2011 through 2013 for the four major operating funds by comparing actual revenues to expenditures, including appropriated fund balance where applicable.
- We reviewed the Town's real property tax levy for 2011 through 2014 to determine if the levy was increasing.
- We interviewed Town officials and reviewed Board minutes to gain an understanding of the budget process, policies that may exist, use of reserves and long-term planning for equipment and the Project.
- We compared the past three years' fund balances to the ensuing year's appropriations.

We conducted this performance audit in accordance with 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.

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