



Town of Barton Financial Planning

Report of Examination

Period Covered:

January 1, 2013 — October 28, 2014

2015M-52



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2015

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 Barton, entitled Financial Planning. 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 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 Barton (Town) is located in Tioga County, has a population of 8,858 residents and includes the Village of Waverly within its boundaries. The Town provides various services for its residents, including street maintenance, snow removal, justice court, water distribution, sewage treatment and general governmental support. The Town's 2015 annual budget for all funds is over \$2.3 million dollars and is funded primarily with real property taxes, user fees and State aid.

The Town is governed by an elected Town Board (Board) which is composed of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's operations and finances, along with establishing and implementing long-term financial plans. 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. The Supervisor acts as the Town's budget officer and therefore leads the Town's annual budget development process.

Objective

The objective of our audit was to assess the Board's practices regarding financial planning. Our audit addressed the following related question:

- Did the Board properly plan for the future by establishing adequate budgets and setting long-term plans?

Scope and Methodology

We examined the Board's financial planning for the period January 1, 2013 through October 28, 2014. We extended our audit period back to January 1, 2011 and forward through December 31, 2014 to provide a more comprehensive view of the Town's financial position.

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 B of this report.

Comments of Local 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. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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 Clerk's office.

Financial Planning

An important Board responsibility is to plan for the future by establishing adequate budgets and setting long-term plans. The Board has responsibility to adopt realistic, structurally balanced budgets. To that end, the Board should develop budgets based on sound estimates of revenues and expenditures (i.e., appropriations) that are supported with historical trends or any known operational needs. After year-end, the Board members should compare their fund balance estimates to actual results to ensure they had at least as much fund balance to appropriate as budgeted. Another key component of planning is the development of comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Moreover, the Board should establish guidelines for a reasonable level of fund balance to be maintained. Finally, the Board should establish plans for the funding and use of reserves.

The Board did not properly plan for the future by establishing adequate budgets and setting long-term plans. The Board's financial planning was impaired, in part, because the Supervisor did not provide sufficient historical information or projections during the budget process. The Board also did not establish a level of acceptable fund balance or properly use money in the town-wide (TW) highway equipment reserve. As a result, there is an increased risk that unforeseen events could affect the Board's ability to provide necessary services.

Budgets – Although the Board generally adopted proper revenue estimates, all six funds had appropriation estimates that were not reasonable.¹ Further, three funds² had average variances over the last four years that ranged from 13 percent to 17 percent. The other three funds³ generally had total expenditure variances of less than 10 percent, but they experienced significant variances within individual appropriation lines. There were numerous instances from 2011 to 2014 where the Board members budgeted similar amounts from year to year for specific line items, without considering historical trends. For example, in the town-outside-village (TOV) highway, they budgeted an average of \$136,000 for maintenance of streets but actually spent an average of just over \$113,000. In the TW general fund they budgeted an average of \$77,000 for health insurance but actually spent an averaged over \$57,000. Finally, the water and

¹ We used a 10 percent variance between budgeted amounts and actual results as our threshold for reasonableness. This threshold applied to the total budget or individual line items for each fund.

² TW general, TOV general and water

³ TW highway, TOV highway, sewer

sewer funds' budgets included \$30,000 and \$36,000, respectively, in transfers to other funds over the last four years that were never made. These budgeting trends continued in the 2015 adopted budget.

Board members informed us that during the budget process, they generally questioned high percentage increases from the prior year's budgeted amount instead of reviewing historical trends of actual results for each budget line. However, the Board members could not have performed such reviews, had they chosen to, because the Supervisor only provided them with actual figures for the last completed year and did not provide projected year-end fund balances or other figures for review.

Long-Term Financial Plans – Board members also have not developed a comprehensive multiyear financial and capital plan and do not have any other mechanism to adequately address the Town's long-term operational and capital needs. For example, they did not establish a level of acceptable fund balance to be maintained and did not properly use money in the TW highway equipment reserve. They began 2014 with \$286,900 in the TW highway equipment reserve. During the year, they transferred an additional \$113,500 into the reserve to end with an available balance of over \$401,000.⁴ During 2014, they purchased a piece of equipment for \$198,000; however, they only used \$94,900 from this reserve, with the balance coming from the TW highway fund. Because they used TW highway funds instead of available reserve funds, they ended the year with only \$43,100 in the TW highway fund and therefore did not have enough fund balance in the TW highway fund to appropriate the planned amount of \$134,800 for use in 2015. There is no documented planned use for the remainder of the funds in this reserve.

The Board members did not establish long-term financial plans because they did not want to commit future Boards to their decisions. However, the accumulation of cash in the absence of a long-term financial plan only serves to illustrate the continued increase in the real property tax levy as unnecessary. The Supervisor and other Board members did not re-assess year-end results to ensure they still had fund balance to appropriate as budgeted. Without a comprehensive multiyear financial and capital plan, the Board's ability to effectively manage Town finances and adequately plan for future capital needs is diminished.

Unreasonable budgetary practices, along with the absence of financial or infrastructure planning, could cause the Town to accumulate excessive fund balances or lead to fiscal stress. By improving these practices, the Town will be able to properly retain enough unexpended

⁴ The fund also earned over \$800 in interest.

surplus funds to provide a reasonable cushion for unforeseen events and provide necessary services to the taxpayers that fund it.

Recommendations

The Supervisor should:

1. Provide the Board with sufficient historical trends of actual revenues and expenditures along with projected year-end figures including unassigned fund balance during budget preparations.

The Board should:

2. Review sufficient historical trends of actual revenues and expenditures when determining amounts to be budgeted for each revenue and appropriation line.
3. Develop and adopt long-term financial plans.
4. Develop and adopt fund balance threshold amounts to be maintained and then only budget for the use of fund balance to maintain those amounts.
5. Develop guidance on the funding and use of each of their reserves.
6. Compare year-end results to projections to ensure that there is still enough fund balance to maintain established threshold amounts and to be appropriated as budgeted.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF BARTON

304 ROUTE 17C, WAVERLY, NY 14892-9295

FAX (607) 565-2262

SUPERVISOR (607) 565-9265
TOWN CLERK (607) 565-2261

SUPT. OF HIGHWAYS (607) 565-9476
ASSESSORS (607) 565-2171

July 23, 2015

Dear Comptroller,

I have received your audit report for 2014. I agree with the audit. We will be taking steps to comply with this audit.

We have developed and passed a trending process for budgeting purpose, covering 3 previous years, to get an average for each budget account.

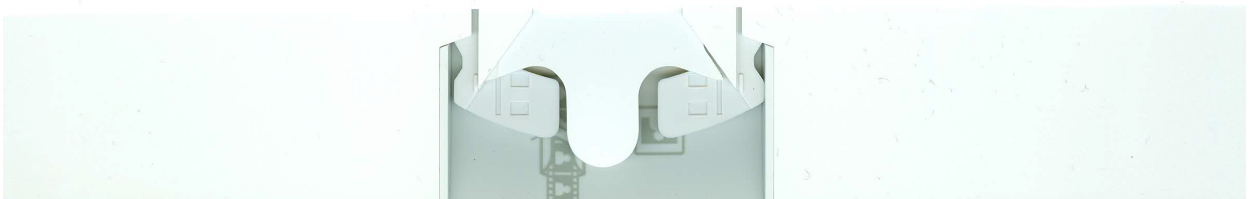
A meeting is to be held on August 10, 2015, at this time we will pass a resolution to correct our appropriated fund balance for 2015.

Sincerely,

Leon (Dick) Cary

Town of Barton Supervisor

The Town of Barton is an Equal Opportunity Employer



APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Board's practices regarding the development and adoption of budgets. To accomplish our objective and obtain valid and relevant audit evidence, we did the following:

- We interviewed Town officials and staff members to gain an understanding of the budget process (including the use of fund balance) and their financial planning, including guidance on levels of fund balance and plans for reserves.
- We compared total budgeted revenues and appropriations to actual revenues and expenditures for the 2011 through 2014 fiscal years to determine if adopted budgets were reasonable. For the same time frame, we also analyzed revenue and expenditure lines for trends of poor budgeting.
- We compared budgeted fund balance appropriations to actual needs for the period 2011 through 2014 to determine if amounts being budgeted were reasonable. We also calculated the unappropriated/unassigned fund balance as a percentage of ensuing year's appropriations for the same time period to determine if unappropriated/unassigned amounts were reasonable.

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.

APPENDIX C

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