

Town of Howard

Fund Balance Management

JANUARY 2019



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

Contents

- Report Highlights 1**

- Fund Balance Management 2**
 - How Can a Board Ensure That Fund Balance Is Reasonable? 2
 - The Board’s Actions to Manage Fund Balance Were Not Effective . . 2
 - Why Are Formal Multiyear Plans Important?. 3
 - The Board Did Not Adopt Formal Multiyear Plans 4
 - What Do We Recommend? 4

- Appendix A – Response From Town Officials 6**

- Appendix B – Audit Methodology and Standards 8**

- Appendix C – Resources and Services. 10**

Report Highlights

Town of Howard

Audit Objective

Determine whether the Board effectively managed fund balance.

Key Findings

- The Board's management of fund balance was not effective. As a result, general and highway fund balances increased significantly over the 2015 through 2017 fiscal years.
- The Board did not adopt fund balance, reserve or budgeting policies or multiyear financial and capital plans.

Key Recommendations

- Periodically monitor adopted budgets and make necessary amendments and transfers as needed.
- Establish budgeting, fund balance and reserve policies and develop multiyear financial and capital plans.
- Use surplus funds as a financing source for funding one-time expenditures, needed reserves and/or reducing property taxes.

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

Background

The Town of Howard is located in Steuben County. The Town is governed by an elected Town Board (Board), which consists of the Town Supervisor and four council members.

The Town provides services to its residents, including street maintenance and improvements, snow removal, street lighting, fire protection, justice court and general government support. 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 fiscal officer.

Quick Facts

Population	1,467
2018 General Fund Appropriations	\$501,747
2018 Highway Fund Appropriations	\$1,156,179
2018 Real Property Tax Levy - All Funds	\$671,229

Audit Period

January 1, 2015 – August 31, 2018

Fund Balance Management

How Can a Board Ensure That Fund Balance Is Reasonable?

A board is responsible for making financial decisions that are in the best interest of the town and its residents. A board should ensure that budget estimates of revenues and expenditures are reasonable and based on historical or known trends. A 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. Further, multiyear financial and capital plans help a 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. A board can legally set aside or reserve portions of fund balance to finance future costs (for example, capital projects or equipment purchases).

The Board's Actions to Manage Fund Balance Were Not Effective

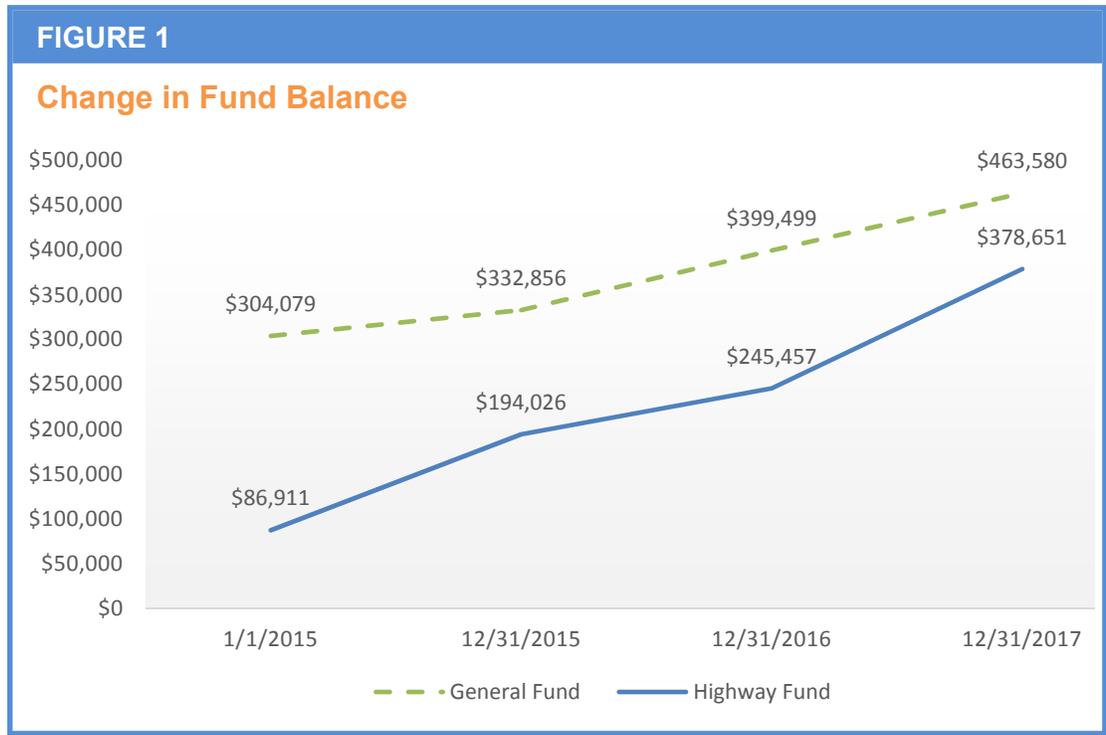
The Board conservatively estimated revenues and appropriations for the 2015 through 2017 general and highway fund budgets. Further, the Board did not fund reserves or request fund balance analyses for budget development because it did not adopt fund balance, reserve or budgeting policies that established the levels of fund balance to be maintained. In addition, rather than actively monitor the budget during the year, the Board did not make budget amendments and transfers until year-end.

As a result, from January 1, 2015 through December 31, 2017, the fund balance of the general fund grew by \$159,501 or 52 percent. During the same period, the highway fund balance grew by \$291,740 or by over three times. As of December 31, 2017, the general and highway fund balances were the equivalent of 78 percent and 30 percent of 2017 expenditures, respectively. These increases were the result of operating surpluses in each of the years. The surpluses in the general fund were the result of underestimating sales tax revenue, while the highway fund surpluses were the result of underestimating consolidated local street and highway improvement program (CHIPS) revenue and overestimating snow removal costs.

In an attempt to maintain fund balance at a reasonable level, the Board funded a capital reserve in the general fund in 2017.¹ However, the funding of this reserve was not part of the annual budget or other planned process, but instead was the result of assigning surplus funds at year-end. The Board also appropriated \$155,000 of highway fund balance each year to finance operations. However, since the highway operations produced an operating surplus that year the fund

¹ The various reserves in the general fund totaled \$70,247 as of December 31, 2017.

balance was not used as a financing source and as a result, was not effective in reducing fund balance.



Our review of the 2018 budget and results of operations as of July 31, 2018 found that the budget estimates were reasonable. The Board addressed the previous years' unanticipated revenues in both the general and highway funds by increasing estimated revenues to levels comparable with prior years' actual revenues.

While the Board has taken some action, the effectiveness of its management of fund balance is hurt by the absence of guidance policies on budgeting, fund balance and reserves. Although the 2018 budget appears to be more realistic, for the budgetary changes to be effective, actual performance will need to be actively monitored during the year with adjustments made as necessary.

Why Are Formal Multiyear Plans Important?

Effective multiyear financial and capital plans project operating and capital needs and financing sources over a three- to five-year period and provide guidance on the financial priorities and goals set by a board. Maintaining a reasonable level of unrestricted fund balance is a key element of effective multiyear planning. A board must monitor and update its financial plans on an ongoing basis to ensure that decisions are guided by the most accurate information available. These plans are

an important budgeting tool for a board and an effective means of communicating a board's goals and priorities to taxpayers.

The Board Did Not Adopt Formal Multiyear Plans

The Board did not develop and adopt comprehensive multiyear financial and capital plans that set long-term objectives and goals. Such plans would be useful to address the large fund balances in the Town's operating funds and to maintain a reasonable level of unexpended surplus funds at year-end. The plans could outline the Board's intentions for financing future capital improvements and maintaining the existing infrastructure.

For example, the Board could outline plans for equipment replacement. According to officials, equipment replacements previously occurred through a buyback program that allowed them to lease and then exchange/trade in equipment for upgrades every few years and avoid excesses repair costs, but now equipment is replaced based on its estimated useful life. Although Town officials regularly purchased used trucks from another town to replace their trucks, there was no formal agreement for past or future purchases.

Also, these capital purchases were made using budget appropriations and from the sale of unneeded equipment. However, the Board can also establish reserve funds to finance planned future capital improvements and repairs. Due to the unplanned operating surplus in 2017, the Board funded the salt storage building reserve upon recommendation of the former Highway Superintendent. A more transparent practice would be to include reserve funding in the adopted budget presented to taxpayers.

Without developing a formal multiyear financial and capital plan and establishing reserve funds to finance the plan, there is a risk the Board's intentions for the Town will not be fulfilled.

What Do We Recommend?

The Board should:

1. Establish written policies and procedures governing the budgeting process, which include defining the amounts of fund balance and reserves that the Town should reasonably maintain.
2. Periodically monitor adopted budgets and make necessary amendments and transfers as needed.
3. Develop comprehensive multiyear financial and capital plans that set long-term objectives and goals. These plans should be monitored and updated on an ongoing basis.

-
4. Include reserve funding in the adopted budget presented to taxpayers.
 5. Use surplus funds as a financing source for:
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Reducing property taxes.

Appendix A: Response From Town Officials²

**TOWN OF HOWARD
3725 MILL ROAD
AVOCA, NEW YORK 14809
(607) 566-2554
FAX (607) 566-3871**

December 20, 2018

Office of the State Comptroller
The Powers Building
16 West Main Street
Suite 522
Rochester, NY 14614-1608

VIA Email: Muni-Rochester@osc.ny.gov

Re: Response to Town of Howard Fund Balance Management Report

Fund Balance Highway:

Set a realistic fund balance for highway that will allow the Town of Howard to be able to front CHIPS expenditures as we go through the fiscal year.

A fund balance for this would be \$250,000.00 plus or minus. This should cover problems that may arise during the year.

Fund Balance General:

In the general fund we will keep the balance at \$50,000.00, plus or minus to meet potential needs.

As you know, we now have a new bookkeeper and will have accurate reports every month and will be able to monitor budget line items. We should review the status of these quarterly and adjust as needed. When its budget time we can correctly change all lines for the next year.

We are developing a five-year plan in our highway department. The problem that we are encountering is that we need more updates than we originally thought. So far striking a balance between meeting those needs without going backwards and holding a reasonable line on taxes is proving difficult. (See attached 5-year plan.)

In the general fund, setting goals is something that we have not done in the past. We will look at building needs such as roofing, insulation, and energy upgrades.

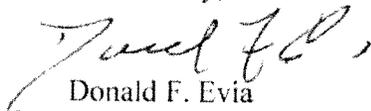
² The Town's response letter refers to an attachment that supports the response letter. Because the Town's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.

We currently place funds into our money market account and transfer into general, highway and T&A as needed to pay bills. An easier way to monitor at a glance would be to split incoming funds into the general and highway accounts as they are received.

The money market account would then be used for reserve funds. Each would be earmarked for its use and housed collectively.

Currently all excess funds need to be used to help to get equipment upgrades. Trucks are the most critical.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald F. Evia".

Donald F. Evia
Town Supervisor

Attachment: 1 pg.

DFE:djp

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 meeting minutes to gain an understanding of the budget process and to determine whether the Board adopted relevant policies and multiyear plans.
- We reviewed the general and highway fund balances for 2015 through 2017 to trend the dollar and percentage increases.
- We reviewed the 2015 through 2017 general and highway fund results of operations to determine whether appropriated fund balance amounts were needed to finance operations.
- We compared the general and highway funds' budgeted revenues and appropriations to the actual revenues and expenditures for 2015 through 2017 to determine whether budgets were realistic.
- We reviewed 2015 through 2017 revenues and expenditures to determine which 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 the 2018 general and highway fund budgeted revenues and appropriations and year-to-date results to the 2017 actual revenues and expenditures and to the previous three-year averages to determine whether the 2018 budget was reasonable.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 Town 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/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

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

ROCHESTER REGIONAL OFFICE – Edward V. Grant Jr., Chief Examiner

The Powers Building • 16 West Main Street – Suite 522 • Rochester, New York 14614-1608

Tel (585) 454-2460 • Fax (585) 454-3545 • Email: Muni-Rochester@osc.ny.gov

Serving: Cayuga, Chemung, Livingston, Monroe, Ontario, Schuyler, Seneca, Steuben, Wayne, Yates counties



Like us on Facebook at facebook.com/nyscomptroller

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)