



# Town of Seward Financial Management

## Report of Examination

Period Covered:

January 1, 2015 — August 3, 2016

2016M-353



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	1
<b>INTRODUCTION</b>	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Local Officials and Corrective Action	2
<b>FINANCIAL MANAGEMENT</b>	3
Recommendations	5
<b>APPENDIX A</b> Response From Local Officials	6
<b>APPENDIX B</b> Audit Methodology and Standards	8
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	9
<b>APPENDIX D</b> Local Regional Office Listing	10

# State of New York Office of the State Comptroller

---

---

## **Division of Local Government and School Accountability**

December 2016

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 Seward, entitled Financial Management. 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 Seward (Town), located in Schoharie County, covers approximately 36 square miles and serves about 1,760 residents. The elected five-member Town Board (Board) is the legislative body responsible for the general management and control over the Town's finances and operations, including long-term planning. The Town Supervisor (Supervisor)<sup>1</sup> is a member of the Board and serves as the Town's chief executive officer and chief fiscal officer. The Town provides various services to its residents, including highway maintenance, snow removal and general government support. The Town's 2016 budgeted appropriations totaled approximately \$802,000 for all funds, funded primarily with real property taxes and State aid.

## Objective

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

- Have Town officials effectively managed their fund balance?

## Scope and Methodology

We examined the Town's financial management for the period January 1, 2015 through August 3, 2016. We extended our scope back to January 1, 2013 for historical perspective.

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 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.

<sup>1</sup> The Supervisor resigned on November 1, 2016; a new Supervisor was appointed to fill the remainder of his term through December 31, 2017. For the purposes of this audit report, Supervisor refers to the Town Supervisor who resigned on November 1, 2016.

# Financial Management

The Board is responsible for making sound financial decisions that balance the level of services desired and expected by the Town’s residents with the ability and willingness of the taxpayers to pay for those services. The Board should adopt a policy to govern a reasonable level of fund balance to be maintained in each fund and management of operating surpluses, and it should adopt long-term plans that set forth the Town’s financial objectives and goals, including the use of reserves for funding those long-term plans. Keeping fund balance at excessively high levels places an unnecessary burden on taxpayers.

The Board has not effectively managed fund balance. Town officials have adopted budgets that consistently overestimated expenditures and underestimated revenues. Expenditure variances have averaged 5 percent for the general fund and 9 percent for the highway fund over the last three fiscal years while revenue variances have averaged 16 percent and 10 percent, respectively. The consistency of these surpluses, more so than the amounts, has driven fund balance amounts to significant levels of excess. Available fund balance in the general fund and the highway fund have consistently been near or over 100 percent of actual expenditures for the last three fiscal years and are projected to remain at those levels or increase at the end of 2016 as shown in Figure 1.

**Figure 1 – Available Fund Balance**

	2013		2014		2015		2016 Projected <sup>a</sup>	
	General Fund	Highway Fund	General Fund	Highway Fund	General Fund	Highway Fund	General Fund	Highway Fund
Unassigned Fund Balance	\$292,993	\$387,857	\$299,165	\$399,729	\$304,130	\$476,777	\$384,063	\$497,376
Appropriated Fund Balance Not Used in Subsequent Year	\$50,400	\$49,415	\$43,000	\$70,500	\$43,000	\$70,500		
Total Available Fund Balance	\$343,393	\$437,272	\$342,165	\$470,229	\$347,130	\$547,277	\$384,063	\$497,376
Actual Expenditures	\$257,052	\$458,068	\$261,680	\$468,381	\$255,765	\$397,225	\$202,588	\$406,225
Percentage of Actual Expenditures	134%	95%	131%	100%	136%	138%	190%	122%

<sup>a</sup> Projections do not include appropriated fund balance at the end of 2016 not used for the subsequent year.

The total available fund balances are more than enough to fund operations for an entire year. Furthermore, included in the fund balance above, Town officials have had two certificates of deposit at a local bank for over 10 years that they have not needed to withdraw for cash flow purposes totaling approximately \$437,000 at the end of 2015.

The Board adopted a fund balance policy that establishes a minimum level of unassigned fund balance of 10 percent of expenditures in the general fund. The policy does not address any other funds, what a reasonable level of fund balance should be or how to manage annual operating surpluses. Town officials told us they are aware of the fund balance levels, but they have historically maintained them at these levels to protect against unanticipated costs. While it is prudent to maintain adequate fund balance to protect against unforeseen circumstances or to budget conservatively, maintaining excessive fund balance in addition to budgeting conservatively results in taxes being higher than necessary.

Town officials developed informal long-term plans to replace highway equipment, repair a significantly washed out road and build a Town hall. They also have established reserves to fund these capital needs. However, because of conservative budgeting practices, consistent operating surpluses and no plans to sufficiently use available fund balance, fund balance levels have remained excessive. For example, in 2016, the Town purchased a new highway dump truck costing approximately \$201,700 and bonded for \$85,000 of the cost instead of using available fund balance. Over the life of this debt, the bond will cost the Town's residents \$8,160. Had they used Town moneys, the Town's available highway fund balance could have decreased to 92 percent of expenditures at the end of 2016, which would still be more than enough to cover unanticipated costs. In addition, we surveyed the Town's roads and found, overall, the roads need significant repairs in addition to the Board's informally planned repairs. Although Town officials agreed with this assessment, there are no immediate plans in place to address these road deficiencies, other than the one major repair of the washed out road mentioned previously. Lastly, Town officials have not indicated that the funding for the Town hall will include significant amounts of available fund balance.

By continuing to maintain these high levels of fund balance without any plans to use available money and incurring costs to borrow money, the Board is not making sound financial decisions in the best interest of the Town's residents and real property taxes could be higher than necessary.

## **Recommendations**

The Board should:

1. Expand the fund balance policy to cover reasonable amounts to maintain in each fund and how to manage annual operating surpluses.
2. Develop a plan to use surplus funds as a financing source for:
  - Funding one-time expenditures;
  - Funding needed reserves; and
  - Reducing Town property taxes.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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

# TOWN OF SEWARD NEW YORK

795 Lowe Road, Cobleskill New York 12043  
Phone (518) 234-2292 Fax (518) 234-3451  
townofseward@verizon.net

December 13, 2016

[REDACTED]  
Office of the State Comptroller  
44 Hawley Street, 3<sup>rd</sup> Floor  
Binghamton, NY 13901-4417

RE: Audit Report – Town of Seward Financial Management  
Audit Report Number – 2016-m-353

Dear [REDACTED]

This letter is the official response to the above referenced draft audit report. On November 28, 2016, I met with [REDACTED] and [REDACTED] who carefully explained the audit process and their findings.

As your office is aware, I am serving as the Interim Seward Town Supervisor, having been appointed on November 17, 2016. Thus, I am unable to personally verify the fund balances as reported. Conversation with the Town Auditor and former Supervisor Barbic indicate the figures are accurate.

I will ask the Town Board in early 2017 to review and develop policy relating to fund balance and use of surplus funds.

I want to thank your office and [REDACTED] for assistance during the audit. The financial informational guides he furnished will be very beneficial to our Town Board as they review our fiscal responsibilities.

Sincerely,

John S. Bates Jr.  
Interim Town of Seward Supervisor

JSB/bjs

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed Board minutes and interviewed Town officials regarding fund balance policies and procedures and budgeting practices, including reserves, and the Town's long-term financial and capital needs and plans, including replacing highway equipment, repairing a significantly washed out road and building a Town hall.
- We reviewed the Town's financial records and reports, including budgets and annual reports, and used them to analyze available funds and reserves.
- We projected the results of operations for 2016 for the general and highway funds comparing financial information to the prior year, the 2015 and 2016 budgets and discussions with Town officials.
- We analyzed available fund balance at the end of the past three fiscal years and projected results of operations as of July 31, 2016 to the end of fiscal year 2016. We compared the balances to actual expenditures to determine if available fund balance levels were excessive.
- We reviewed vendor information regarding the purchase of the new highway dump truck, reviewed preliminary bank information regarding the bonding and discussed the purchase with Town officials to determine how much the bonding would cost and how much available fund balance would be used to purchase the truck.
- We surveyed all of the Town's 39 miles of roads using information provided by the Cornell Local Roads Program to determine the condition of the roads.

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

### HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller  
Public Information Office  
110 State Street, 15th Floor  
Albany, New York 12236  
(518) 474-4015  
<http://www.osc.state.ny.us/localgov/>

**APPENDIX D**  
**OFFICE OF THE STATE COMPTROLLER**  
**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Tracey Hitchen Boyd, Assistant Comptroller

**LOCAL REGIONAL OFFICE LISTING**

---

**BINGHAMTON REGIONAL OFFICE**

H. Todd Eames, Chief Examiner  
Office of the State Comptroller  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313  
Email: [Muni-Binghamton@osc.state.ny.us](mailto:Muni-Binghamton@osc.state.ny.us)

Serving: Broome, Chenango, Cortland, Delaware,  
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

**BUFFALO REGIONAL OFFICE**

Jeffrey D. Mazula, Chief Examiner  
Office of the State Comptroller  
295 Main Street, Suite 1032  
Buffalo, New York 14203-2510  
(716) 847-3647 Fax (716) 847-3643  
Email: [Muni-Buffalo@osc.state.ny.us](mailto:Muni-Buffalo@osc.state.ny.us)

Serving: Allegany, Cattaraugus, Chautauqua, Erie,  
Genesee, Niagara, Orleans, Wyoming Counties

**GLENS FALLS REGIONAL OFFICE**

Jeffrey P. Leonard, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396  
(518) 793-0057 Fax (518) 793-5797  
Email: [Muni-GlensFalls@osc.state.ny.us](mailto:Muni-GlensFalls@osc.state.ny.us)

Serving: Albany, Clinton, Essex, Franklin,  
Fulton, Hamilton, Montgomery, Rensselaer,  
Saratoga, Schenectady, Warren, Washington Counties

**HAUPPAUGE REGIONAL OFFICE**

Ira McCracken, Chief Examiner  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
250 Veterans Memorial Highway  
Hauppauge, New York 11788-5533  
(631) 952-6534 Fax (631) 952-6530  
Email: [Muni-Hauppauge@osc.state.ny.us](mailto:Muni-Hauppauge@osc.state.ny.us)

Serving: Nassau and Suffolk Counties

**NEWBURGH REGIONAL OFFICE**

Tenneh Blamah, Chief Examiner  
Office of the State Comptroller  
33 Airport Center Drive, Suite 103  
New Windsor, New York 12553-4725  
(845) 567-0858 Fax (845) 567-0080  
Email: [Muni-Newburgh@osc.state.ny.us](mailto:Muni-Newburgh@osc.state.ny.us)

Serving: Columbia, Dutchess, Greene, Orange,  
Putnam, Rockland, Ulster, Westchester Counties

**ROCHESTER REGIONAL OFFICE**

Edward V. Grant, Jr., Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street, Suite 522  
Rochester, New York 14614-1608  
(585) 454-2460 Fax (585) 454-3545  
Email: [Muni-Rochester@osc.state.ny.us](mailto:Muni-Rochester@osc.state.ny.us)

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

**SYRACUSE REGIONAL OFFICE**

Rebecca Wilcox, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, New York 13202-1428  
(315) 428-4192 Fax (315) 426-2119  
Email: [Muni-Syracuse@osc.state.ny.us](mailto:Muni-Syracuse@osc.state.ny.us)

Serving: Herkimer, Jefferson, Lewis, Madison,  
Oneida, Onondaga, Oswego, St. Lawrence Counties

**STATEWIDE AUDITS**

Ann C. Singer, Chief Examiner  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313