



# Town of Wales

## Financial Management

### Report of Examination

Period Covered:

January 1, 2013 – December 12, 2016

2017M-32



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>	4
Budgeting and Fund Balance	4
Reserves	6
Multiyear Planning	7
Recommendations	8
<b>APPENDIX A</b> Response From Local Officials	10
<b>APPENDIX B</b> Audit Methodology and Standards	12
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	13
<b>APPENDIX D</b> Local Regional Office Listing	14

# State of New York Office of the State Comptroller

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

May 2017

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 Wales, 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 Wales (Town) is located in Erie County (County) and has a population of approximately 3,000. The Town is governed by an elected five-member Town Board (Board), which is composed of four Board members and a Town Supervisor (Supervisor). The Board is responsible for the general management and control of the Town's financial affairs. The Supervisor is the chief financial officer and is responsible, along with other administrative staff, for the Town's day-to-day management under the Board's direction. The Town appoints a bookkeeper to assist the Supervisor with his financial duties. The bookkeeper serves as the Town's Budget Officer and is responsible for preparing the annual budget, maintaining accounting records and preparing financial reports on the Supervisor's behalf.

The Town provides various services to its residents, including street maintenance, fire protection, emergency services, solid waste removal and recreation programs. These services are financed primarily by real property taxes, sales tax, County snow removal contracts and State aid. The Town's combined 2017 general and highway fund budgeted appropriations total approximately \$1.2 million.

## Objective

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

- Did the Board effectively manage and monitor the Town's fund balance<sup>1</sup> and reserves?

## Scope and Methodology

We examined the Town's financial management activities for the period January 1, 2013 through December 12, 2016. We extended our scope period back to January 1, 1996 to review reserve fund activity.

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.

<sup>1</sup> Our audit focused on the general and highway funds.

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.

# Financial Management

The Board is responsible for making sound financial decisions that are in the best interest of the Town and its residents. This requires the Board to balance the level of services desired and expected by the residents with the ability to pay for such services. The Board is allowed to retain a reasonable portion of fund balance, referred to as unrestricted fund balance. The Board is also permitted by law to establish and fund reserves to finance the future costs for a variety of purposes (e.g., capital projects, unemployment expenditures). However, it is important that the Board follow effective budgeting practices to ensure an appropriate amount of real property taxes are levied. It is also important that comprehensive long-term plans be in place to ensure that the money accumulated in the operating and reserve funds is reasonable and used for appropriate purposes.

The Board should improve its budgeting practices to effectively manage and monitor the Town's general and highway fund balances and reserves. The Board adopted budgets based on unreasonable estimates of revenues and expenditures. As a result, appropriated fund balance<sup>2</sup> was not used to finance operations as planned and the Town accumulated unrestricted fund balances totaling \$1.2 million in the general and highway funds, which is excessive when compared to the Town's expenditure levels.

The Board did not adopt a reserve fund policy or document plans for the expected future use for two of its five reserve funds, which totaled approximately \$83,000 as of December 31, 2015. Further, except for \$193,000 expended from the equipment reserve in 2014, the five reserves totaling \$637,200 have not been used to fund reserve-related expenditures since at least 2010. The Town also does not have a comprehensive multiyear financial plan. We reported similar findings in our previous audit report issued in July 2010.<sup>3</sup>

## Budgeting and Fund Balance

The prudent use of surplus fund balance as a funding source to reduce real property taxes needed to finance operations is a basic component of Town budgeting. The Board should adopt budgets that are based on realistic estimates and ensure that the amounts of fund balance appropriated to finance the next year's operations will be used as planned. In addition, it is important for the Board to follow effective budgetary procedures and reasonably estimate and allocate revenues to ensure that the amount of real property taxes levied is not higher than necessary.

<sup>2</sup> The portion of fund balance used to reduce the real property tax levy

<sup>3</sup> *Town of Wales – Financial Management (2010M-59)*

The Board did not develop policies and procedures addressing budgeting practices or the level of fund balance to be maintained. As a result, as of December 31, 2015, the Town accumulated excessive combined general and highway unrestricted fund balances totaling more than \$1.2 million. The Town had enough combined unrestricted fund balances to fund nearly an entire year's appropriations for both funds at 2015 spending levels (Figure 1).

<b>Figure 1: Combined Unrestricted Fund Balance at Year-End</b>			
	<b>2013</b>	<b>2014</b>	<b>2015</b>
General Unrestricted Fund Balance at Year-End	\$1,243,293	\$1,194,846	\$1,137,010
Highway Unrestricted Fund Balance at Year-End	\$171,563	\$33,010	\$110,976
Total Combined General and Highway Unrestricted Fund Balance at Year-End	\$1,414,856	\$1,227,856	\$1,247,986
Next Year's Budget Appropriations - General Fund	\$713,199	\$812,311	\$883,672
Next Year's Budget Appropriations - Highway Fund	\$626,428	\$544,864	\$457,380
Total Next Year's Combined General and Highway Fund Budget Appropriations	\$1,339,627	\$1,357,175	\$1,341,052
Total Combined Unrestricted Fund Balance as a Percentage of Total Next Year's Budget (General and Highway Funds)	106%	90%	93%

These accumulated excessive fund balance levels resulted from the Board's ineffective budgeting practices. These practices misled residents by making it appear that the Board needed to raise taxes and use fund balance to close projected budget gaps. However, the Board's budgets resulted in operating surpluses or smaller deficits than planned. For example, in 2013 and 2014 the general fund incurred operating surpluses and in 2015 incurred a smaller than anticipated deficit. The highway fund incurred smaller than anticipated deficits from 2013 through 2015.

As a result, the Board did not use approximately \$318,000 in appropriated fund balance to finance its 2015 budget (general fund – \$209,000 and highway fund – \$109,000) as planned. From 2013 through 2015, a combined total of more than \$800,000 in fund balance was appropriated and not used to finance Town operations.

The Board also did not adopt reasonable budget estimates. For example, from 2013 through 2015, the Board underestimated sales tax revenue by approximately \$206,000, or 15 percent, which contributed to the excessive general fund balance. This trend is expected to continue for the general fund through 2017 because the budgeted sales tax revenue was \$400,000 in 2016 and \$370,000 in 2017, even though actual sales tax revenue averaged approximately \$450,000 annually during our audit period.

The bookkeeper told us that for 2016 and 2017 the Board estimated less sales tax revenue than in prior years in case the County changed

the Town's sales tax allocation percentage. However, no changes occurred as of the end of our audit fieldwork. Actual sales tax revenue annually averaged \$450,000 during our audit period while budget estimates were \$50,000 to \$80,000 less. The bookkeeper also told us this budget variance had no effect on Town residents because real property taxes were not levied for the general fund. However, Town officials could have allocated more sales tax revenue from the general to the highway fund in an effort to reduce that fund's real property tax levy.

The Board also annually overestimated expenditures in both funds by an average of approximately \$169,000, or 13 percent, during our audit period. These variances were primarily for buildings, machinery, equipment, parks and capital improvements (\$46,000), health insurance (\$26,300) and auditing services (\$10,000).

Had the Board prepared more reasonable budgets and maintained unrestricted fund balances at reasonable levels, it could have reduced the highway fund tax burden for Town residents. Assuming current spending levels remained constant, the Town could have eliminated the highway fund's tax levy from 2013 through 2017 and still had combined fund balances totaling approximately 50 percent of 2015 general and highway fund appropriations.

## Reserves

The Board is responsible for continually monitoring reserve use and periodically assessing the reasonableness of the amounts accumulated to ensure they are maintained in accordance with statutory requirements and in the best interest of Town residents. Therefore, it is important the Board adopt a written policy that states its rationale for establishing reserve funds, objectives for each reserve, targeted funding levels and conditions under which reserves will be used or replenished.<sup>4</sup>

The Board has not adopted a reserve fund policy. As of December 31, 2015, the Board accumulated approximately \$536,000 in four general fund reserves and approximately \$101,000 in a highway fund equipment reserve for combined total reserves of \$637,000 (Figure 2). This amount represented 47 percent of 2015 general and highway fund appropriations. Generally, these reserves remained unused since at least 2010, except for \$193,000 expended from the equipment reserve in 2014. Additionally, we found that no documentation was maintained to indicate the planned future use for \$83,000 in the tax stabilization and unemployment reserve funds.

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<sup>4</sup> For additional information, refer to our publication, *Local Government Management Guide Reserve Funds*, available at <http://www.osc.state.ny.us/localgov/pubs/lmg/reservefunds.pdf>.

**Figure 2: Reserve Funds as of December 31, 2015**

Reserve	Balance
Capital	\$427,300
Equipment	\$100,900
Tax Stabilization	\$55,600
Unemployment	\$27,400
Technology Equipment	\$26,000
<b>Total</b>	<b>\$637,200</b>

While the bookkeeper provided us with written rationale for the unemployment reserve, it was not approved by the Board. Furthermore, we question the methodology and the balance retained in this reserve. The Town's unemployment expenditures totaled less than \$300 over the past 20 years (an average of \$15 each year). However, the Board funded this reserve with more than \$27,000 as of December 31, 2015.

The bookkeeper also provided us with the Board-adopted capital plan dated December 31, 2015. The plan included projected future additions to the capital, equipment and technology equipment reserves and anticipated reserve expenditures. However, in 2015 the Board budgeted approximately \$105,000 in the highway fund for machinery equipment when it could have reduced highway fund real property taxes by using available reserve funds for this purpose. As a result, we question the reasonableness of the balances retained in these reserves.

Further, Town officials were unable to provide us with documentation to support their rationale for the amount retained in the tax stabilization reserve, which totaled \$55,600 as of December 31, 2015. Moreover, officials have not levied real property taxes for the general fund in more than five years, and as of November 30, 2016 no funds had been expended from any of the reserves in 2016.

## **Multiyear Planning**

Comprehensive multiyear financial planning is a tool Town officials can use to estimate the future costs of ongoing services and capital needs. Planning on a multiyear basis allows officials to identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. It also allows officials to assess the effect and merits of alternative approaches to address financial issues such as using surplus fund balance to finance operations and accumulating money in reserve funds. Any long-term financial plan should be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board adopted a multiyear capital plan, which was updated in December 2015, and included anticipated timing of capital

projects and purchases and the reserve fund balances for the capital, equipment and technology equipment reserves. The plan included annual estimates for increases to these reserves and the estimated time frames for expending from the capital, equipment and technology reserves. However, the Board has not adopted a multiyear financial plan, which would address revenue and expenditure trends, changes to reserve fund balances or the estimated use of unrestricted fund balance as a potential funding source for future additions to reserves. Such a plan would be a useful tool for the Board to address the excess accumulated unrestricted fund balances identified in this report.

## Recommendations

The Board should:

1. Adopt policies and procedures to address its budgeting practices and the level of fund balance to be maintained and closely monitor and reduce unrestricted fund balance levels.
2. Adopt budgets that reflect the Town's operating needs based on historical trends or other known factors.
3. Discontinue the practice of appropriating fund balance that is not needed and not used to fund operations.
4. Consider allocating greater amounts of sales tax revenue from the general fund to the highway fund in an effort to reduce the highway fund real property tax levy.
5. Reduce the amount of unrestricted general and highway fund balances and use the excess funds in a manner that benefits Town residents. Such uses could include, but are not limited to:
  - Funding one-time expenditures;
  - Funding needed reserves; and
  - Reducing highway real property taxes.
6. Adopt a reserve fund policy, which includes documenting the purpose for each reserve, the rationale used to determine the appropriate funding level, how each reserve will be funded and when the balances retained will be used to finance related costs.
7. Review all reserves at least annually to determine whether the amounts reserved are necessary and reasonably funded. Any excess funds should be transferred to unrestricted fund balance (where allowed by law) or to other reserves established and maintained in compliance with statutes.

8. Develop and adopt a written comprehensive multiyear financial plan and routinely update its adopted multiyear capital plan to document the goals and objectives for funding long-term operating and capital needs, the estimated timeline for spending to meet those goals and objectives, revenue and expenditure trends, changes to reserve fund balances and estimates for using unrestricted fund balance as a potential funding source for future additions to reserves. The plans should be monitored and updated on an ongoing basis.

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

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



Mr. Jeffrey D. Mazula, Chief Examiner  
Buffalo Regional Office  
295 Main /street, Suite 1032  
Buffalo, NY 14203-2510

April 26, 2017

Dear Sir,

This communication represents the Town of Wales ' response to the preliminary draft findings prepared by your office for the period of January 1, 2013 – December 12, 2016.

The Board would note that after reviewing the entire scope of the financial operations of the Town of Wales, the audit centered on the lack of written policies for Fund Balance, Reserves, Budgets and a Multiyear Financial Plan.

The Board would note that the Town has the authority to define and establish reasonable Fund Balance levels based on its own unique situation, and the Town has Board established Reserves by resolutions which it monitors with its Capital Plan, and the Town practices good faith budgeting using Town Law and NYS Management Guides.

The Town of Wales will comply with the audit recommendation to prepare Board approved, written Policy statements that formally outline the Towns positions, practices and compliance with Town Law. The Town will also prepare a Multiyear Financial Plan.

Sincerely,

Rickey Venditti  
Supervisor

12345 BIG TREE ROAD, P.O. BOX 264, WALES CENTER, NEW YORK 14169-0264 (716) 652-0589

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Town officials and reviewed Board meeting minutes and the annual audit conducted by the Board in 2015 to obtain an understanding of Town financial management operations and to determine whether the Board had addressed the recommendations from our previous audit.
- We analyzed changes in fund balance and revenue and expenditure trends for the general and highway funds for 2013 through 2015 and evaluated major factors contributing to operating results for those years.
- We analyzed unrestricted fund balance as a percentage of the next year's budgeted appropriations to determine whether unrestricted fund balance was reasonable.
- We compared budget estimates to actual revenues, expenditures and use of appropriated fund balance for 2013 through 2015 and year-to-date activity as of November 30, 2016 to determine whether those estimates were reasonable.
- We analyzed the highway fund real property tax levy from 2013 through 2017 to determine whether the Town could have eliminated the levy and still had sufficient fund balance as a percentage of general and highway fund appropriations.
- We reviewed the Town's general and highway funds budgeted appropriations to determine whether the Board budgeted for expenditures that could have been paid from reserve funds.
- We analyzed average unemployment expenditures over the last 20 completed years to determine whether the unemployment reserve was reasonably funded.
- We reviewed Board resolutions establishing each reserve fund as of December 31, 2015 and compared this information to each reserve's financial activity from 2010 through 2015 to determine whether the reserves were properly established and managed.
- We reviewed reserve fund documentation to determine whether reserve fund balance calculations and the rationale used were accurate and 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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