



Village of Candor Fund Balance

Report of Examination

Period Covered:

June 1, 2015 – May 31, 2017

2017M-148



Thomas P. DiNapoli

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State of New York

Office of the State Comptroller

Division of Local Government and School Accountability

October 2017

Dear Village 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 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 Village of Candor, entitled Fund Balance. 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 Village of Candor (Village) is located in the Town of Candor in Tioga County and serves approximately 850 residents. The elected five-member Village Board (Board) is the legislative body responsible for managing the Village's operations, including maintaining a sound financial condition. The Village Mayor is a member of the Board and serves as the Village's chief executive officer. The Board also appointed a Clerk-Treasurer who serves as the Village's chief fiscal officer.

The Village provides a variety of services including street maintenance and improvements, snow removal, police services, water distribution and general government support. The Village's 2017-18 budgeted appropriations for the general fund were \$297,735 and for the water fund appropriations were \$173,075.

Objective

The objective of our audit was to evaluate the Village's fund balance management. Our audit addressed the following related question:

- Did Village officials properly manage fund balance?

Scope and Methodology

We examined the Board's management of fund balance for the period June 1, 2015 through May 31, 2017. We extended our scope back to June 1, 2014 to analyze the Village's fund balance and budgeting trends.

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 Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials agreed with our recommendations.

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 Clerk-Treasurer's office.

Fund Balance

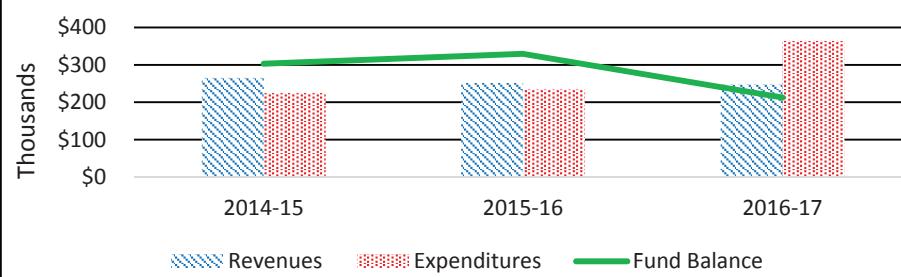
The Board may retain a reasonable portion of fund balance to be available in the event of unforeseen circumstances and to provide cash flow to compensate for timing differences between receipts and disbursements. Accordingly, the Board should maintain reasonable levels of fund balance to ensure that the amount of taxes levied are appropriate to meet the residents' needs. The Board may also establish and fund reserves to finance the future costs of a variety of items or purposes.

It is also important for the Board to plan for the future by setting adequate long-term priorities and goals. Having a long-term financial plan helps the 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 any long-term financial plan.

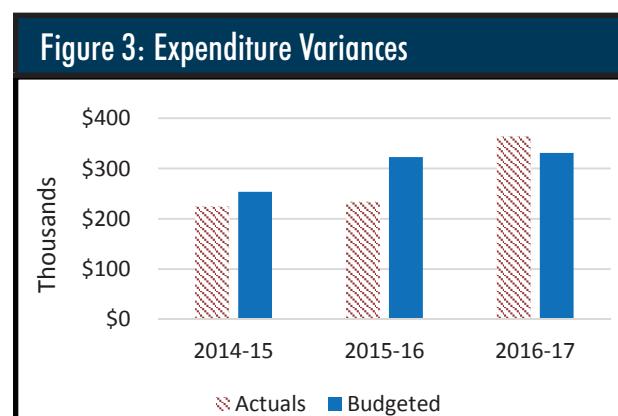
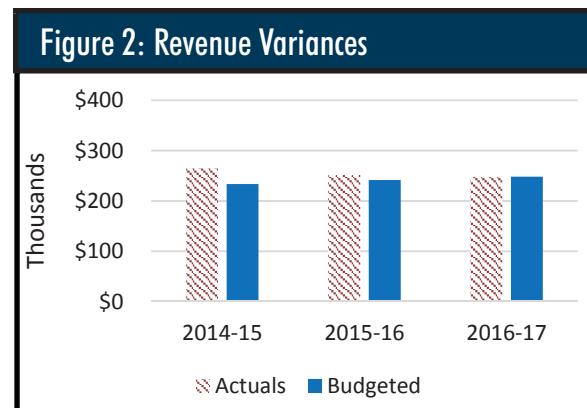
Lastly, it is essential that the Board use sound budgeting practices when developing budgets to ensure its plans are implemented. During the budget process, the Board should review historical trends when estimating revenues and appropriations, to the extent possible, to limit budget-to-actual variances. These practices help ensure that the amount of real property taxes levied is not greater than necessary.

The Board should improve its general fund balance management. Although fund balance declined by \$117,000 (35 percent) in 2016-17, the balance as of May 31, 2017 was \$213,000, or 78 percent of the average annual expenditures over the last three years. Furthermore, the Board has no clear plans for the use of the accumulated funds. For example, the Board has not developed a fund balance policy or comprehensive long-term financial and capital plans specifying the Village's objectives and goals for using the accumulated funds.

Figure 1: General Fund Balance



The Board budgeted to reduce fund balance by appropriating an average of \$61,000 in the general fund in each of the last three years. However, for the years 2014-15 and 2015-16, favorable budget variances negated the use of appropriated fund balance and instead increased total fund balance by \$58,000. In 2016-17, the Village spent \$90,000 more than budgeted towards unexpected asbestos removal and used \$34,000 more than what it had planned for operations. Had the estimated asbestos removal costs been as planned, the \$27,000 decrease in fund balance would not have been enough to offset the \$58,000 increase in the previous years.



Revenue and appropriation estimates were generally reasonable but very conservative. This resulted in actual revenues averaging 6 percent over budgeted amounts and expenditures averaging approximately 10 percent less than the budgeted appropriations during the period of 2014-15 through 2016-17. The combined effect of these variances¹ and the lack of using accumulated fund balance to fund reserves or to reduce taxes resulted in excessive fund balance.

Furthermore, the Board does not have documented plans or policies regarding the intended use of the accumulated fund balance. The

¹ The expenditures variances were driven primarily by budgeting for a piece of equipment that was not purchased and maintenance costs.

Mayor stated he prefers to maintain a fund balance of \$100,000 and may use the excessive fund balance to fund the Village's future capital needs. However, without established capital reserves, the funds may not be used as intended.

Without clear plans for the use of these accumulated funds, Village officials may have raised more real property taxes than necessary. Over the last three years, Village officials have kept real property taxes relatively flat, but higher than necessary, by levying close to the maximum allowable by the real property tax levy limits. However, fund balance levels have exceeded the real property tax levies during this period from 147 to 227 percent.

Recommendations

The Board should:

1. Reduce the amount of general fund balance and use the excess in a manner that benefits Village residents. Such uses could include, but are not limited to:
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Reducing real property taxes.
2. Adopt a comprehensive fund balance policy that addresses its budgeting practices and establishes the levels of fund balance to be maintained.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Village of Candor

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October 19, 2017

Mr. H. Todd Eames, Chief Examiner
Office of the State Comptroller
Binghamton Regional Office
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Mr. Eames:

The Village of Candor Board of Trustees and I have reviewed the OSC's preliminary draft findings of your recent examination of the Village of Candor Fund Balance.

We acknowledge that these findings are an accurate and complete representation of the Village's current fund balance condition. Upon receipt of the OSC's final audit findings and recommendations, we will provide the Village's Corrective Action Plan (CAP) within the 90-day requirement.

On behalf of the Village of Candor Board of Trustees, I thank the OSC staff for this opportunity to positively improve operations and internal controls to more efficiently provide services to our residents.

Sincerely,

Eric Halstead
Mayor

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed Village officials and reviewed Board meeting minutes to gain an understanding of the Village's financial practices and plans.
- We reviewed the Village's fund balance from 2014-15 through 2016-17 to determine if balances were reasonable.
- We analyzed the Village's results of operations and budget variances from 2014-15 through 2016-17. We compared the taxes levied to the tax cap limit for these same years.
- We compared the reported cash balance for 2016-17 to the reconciled bank statement to ensure 2016-17 reported figures 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.

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