

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Town of Conesville

Long-Term Planning

Report of Examination

Period Covered:

January 1, 2015 — July 26, 2016

2016M-314



Thomas P. DiNapoli

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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 Conesville, entitled Long-Term 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 Conesville (Town), located in Schoharie County, covers approximately 40 square miles and serves approximately 730 residents. The elected five-member Town Board (Board) is the legislative body responsible for managing Town operations, including maintaining and planning for the Town's long-term capital needs. The Town Supervisor is a member of the Board and serves as the Town's chief executive officer and chief fiscal officer. The Town's Highway Superintendent (Superintendent), a separately elected position,¹ is primarily responsible for the maintenance and repair of Town roads.

The Town provides various services to its residents, including highway maintenance, snow removal and general government support. The Town has 37 miles of roads, including approximately 19 miles of unpaved sections, within its boundaries. The Town's 2016 budgeted appropriations totaled approximately \$930,000 for all funds, funded primarily with real property taxes and State aid. The highway fund's budgeted appropriations totaled \$598,100 for 2016.

Objective

The objective of our audit was to examine the Town's long-term planning. Our audit addressed the following related question:

- Did Town officials plan for long-term highway capital needs?

Scope and Methodology

We examined the Town's long-term planning for the period January 1, 2015 through July 26, 2016.

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.

We employed a criterion of "no observable defects" for road conditions during the visual inspection of roads we conducted. This was necessary as anything less would be subjective and open to interpretation. Therefore, any defects we identified in current road conditions most likely represent the maximum required for repair. The actual degree of road work depends on the condition that the Board and Superintendent deem acceptable and the cost of the work necessary to maintain the roads in that condition.

¹ The current Superintendent's term began in 2015.

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 findings and indicated they plan 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.

Long-Term Planning

It is important to develop comprehensive, multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs. These plans can help residents and elected local government officials see the impact of their financial decisions over time. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Planning on a multiyear basis allows Town officials to identify developing revenue and expenditure trends and set long-term priorities and work toward goals, rather than making choices based only on the needs of the moment. It also allows them to assess the impact and merits of alternative approaches to financial issues, such as accumulating money in reserve funds and the use of fund balance to finance operations. Reserve funds provide a mechanism for saving money in a legal manner to finance all or part of future infrastructure, equipment and other requirements. In good times, money not needed for current purposes can often be set aside in reserves for future use. In uncertain economic times, reserve funds can also provide officials with a welcomed budgetary cushion that can help mitigate the need to cut services or to raise taxes.

It is essential that any long-term financial plans are monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available. When developing long-term plans, local governments should ensure that estimated useful lives are appropriate to their own particular circumstances and should consider the quality of the equipment and the application and environment in which it will be used. Once established, estimated useful lives for major categories of capital assets should be periodically compared with a local government's actual experience and appropriate adjustments should be made to reflect this experience.

We found that Town officials have allocated sufficient resources to properly maintain the Town's roads. However, they have not allocated sufficient resources for future highway equipment needs.

Road Conditions – Town officials properly planned for long-term road maintenance. While the Superintendent used a formal methodology from his long-term plan to maintain the Town's roads at a level of quality he deemed acceptable, the Board did not formally adopt this plan. Specifically, the Superintendent's methodology consisted of applying surface treatments as needed and paving one-half to one mile of Town roads each year. In addition, the Highway Superintendent told us he was trying to take advantage of the current low price of oil

by paving and repairing as much road surface as possible. According to the Superintendent's road maintenance plan, he expects to spend \$800,000 for capital improvements and routine maintenance over the next seven years.

We performed a road survey² of the Town's roads to assess the liability to improve the roads to a condition of no observable defects using the Cornell Local Roads Program (CLRP)³ methodology.⁴ The survey resulted in a calculated liability⁵ of approximately \$650,000⁶ as of July 26, 2016. The \$150,000 difference between the Superintendent's road maintenance plan and our calculated liability derives from the annual maintenance of all roads the Superintendent plans to spend over the seven-year period. Based on the survey results and a comparison to the Superintendent's formal road maintenance plan, we determined that the Superintendent has properly planned for long-term road maintenance. He also has stated that the funding is available within his budgetary expectations.

In addition, we compared the Town's road survey results to the road survey results of 10 other regional⁷ towns we recently completed. We found the average calculated liability per road mile for the 10 towns to be \$23,500,⁸ ranging from a low of approximately \$2,000 to a high of approximately \$52,900. Based on the Town's below-average liability of \$17,300 per road mile and the survey team's collective experience performing the 11 road surveys, including driving extensively in the region, the team found the overall condition of the Town's roads to be well-maintained, structurally sound and in better condition than many of the other towns' roads.

² The road survey methodology requires taking visual observations of road defects and quantifying them using the CLRP parameters to determine the cost to repair the roads.

³ The CLRP is a local technical assistance program center sponsored by the Federal Highway Administration and the New York State Department of Transportation providing training and technical assistance to local highway and public works officials in New York State.

⁴ See Appendix B for additional details.

⁵ The calculated liability represents the amount it would cost to bring all Town roads up to a zero defects status.

⁶ This liability figure uses CLRP pricing, which is derived from the statewide average of costs for materials, labor and equipment. To derive the Town's actual liability, Town officials should adjust this figure based on their actual costs.

⁷ The region encompasses the nine counties serviced by the New York State Comptroller's Local Government and School Accountability Binghamton Regional Office: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Sullivan, Tioga and Tompkins counties.

⁸ This amount represents the average of the calculated liability per road mile for each of the 10 towns.

Highway Equipment – Town officials have not sufficiently planned for the replacement of highway equipment. The Town owns 10 pieces of major highway equipment which, in total, are over their useful life by an average of 6.7 years (nine are over their useful life and one is under its useful life).⁹ This occurred because Town officials have not adopted formal long-term financial or capital plans for equipment replacement. Moreover, the Board has not established any reserves to ensure financial resources are available to finance future capital equipment needs.

Figure 2: Age of Major^a Highway Equipment

Type	Quantity	Average Age (Years)	Useful Life ^b (Years)	Difference (Years)
Dump Trucks	6	14	8	6
Grader	1	19	8	11 ^c
Roller	1	20	8	12
Back Hoe	1	15	8	7
Loader	1	10	8	2
Average	N/A	14.7	8	6.7

^a Major highway equipment includes dump trucks and the road maintenance and repair equipment listed. It does not include the Town's pickup trucks, mower or chipper.

^b Useful life is provided by the New York State Office of General Services and is used by the State of New York for depreciation purposes. It is intended as a guide. Municipalities should develop their own estimated useful life criteria based upon their individual experience.

^c The grader received a major transmission overhaul in 2015, which extended its useful life.

Although the Superintendent has concentrated resources on maintaining the equipment in good working order, the majority of the Town's highway equipment may be beyond its useful life and may need to be replaced soon. Without sufficiently addressing the Town's long-term capital needs, Town officials may be spending more than necessary on equipment repairs. The capital plan should incorporate the Board's decisions about when equipment should be replaced and whether to accumulate funds for replacement in reserves or take advantage of current low interest rates to finance acquisitions. Further, in the event of a catastrophic failure of equipment, the Town may not be able to provide necessary services to Town residents or will face a large uncertain and unfunded future expenditure.

⁹ While useful life may not be an indication of how long a particular piece of equipment will last, local officials can consider this information when developing a long-term plan for equipment replacement.

Recommendations

The Board should:

1. Develop long-term financial¹⁰ and capital plans¹¹ to ensure financial resources are available to replace capital assets in a timely manner.
2. Consider establishing reserves,¹² as part of its long-term planning efforts, to set aside funds for identified future expenditures. When establishing reserves, the Board should clearly establish the purpose, planned uses and desired funding level of each reserve.

¹⁰ <http://www.osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf>

¹¹ http://www.osc.state.ny.us/localgov/pubs/lgmg/capital_planning.pdf

¹² <https://www.osc.state.ny.us/localgov/pubs/lgmg/reservefunds.pdf>

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

**Conesville Town Supervisor
1306 State Route 990V
Gilboa, NY 12076
607-588-7211
Fax 607-588-6832
federicebill@gmail.com**

Via internet to Muni-Binghamton@osc.state.ny.us

November 25, 2016

Office of the State Controller
Division of Local Government and School Accountability
H. Todd Eames, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Subject: Town of Conesville Audit 2016M-314

Dear Mr. Eames,

In response to the subject audit report submitted to the Town of Conesville; the Town agrees with the recommendation there needs to be a formal process to plan our future needs for necessary highway capital equipment. It is the intent of the Conesville Town Council to formulate a plan that will identify future needs and what resources and methodology to use in meeting those needs. As required, a more detailed plan will be submitted within 90 days.

Conesville is a small rural town with limited resources and tax base. As such, we very much appreciated the opportunity to receive the detailed financial examination provided by your office before deciding to focus the audit on long term planning.

William Federice

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 and budgeting practices, including reserves, and the Town's long-term financial and capital needs and plans.
- We surveyed all of the Town's 37 miles of roads using information provided by the CLRP¹³ to determine the condition of the roads. The CLRP includes techniques that could be used to improve the roads to a condition with no observable defects. We chose the techniques (i.e., rehabilitation, overlays and surface treatment) that would fix all the noted defects. We then calculated an estimated cost by applying the average cost of all methodologies within each technique (i.e., cold mix asphalt and chip seal) that other towns we have surveyed have used to the number of miles that we deemed needed work. We also compared the results of our survey of the Town to the results of other regional towns surveyed.
- We interviewed the Superintendent, reviewed his monthly reports to the Board, observed the general condition of the highway equipment and garage and used the New York State Office of the State Comptroller's Capital Asset Guide¹⁴ to establish the useful life for each piece of major equipment listed on his equipment inventory. We then determined the age of the equipment using New York State Department of Motor Vehicle records to determine if Town equipment was beyond its useful life.

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.

¹³ www.clrp.cornell.edu

¹⁴ http://www.osc.state.ny.us/localgov/pubs/lgmg/capital_assets.pdf

APPENDIX C

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APPENDIX D

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