

Town of Albion

Financial Management

JUNE 2021



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

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Report Highlights

Town of Albion

Audit Objective

Determine whether the Town of Albion (Town) Town Board (Board) developed and monitored realistic and structurally balanced budgets.

Key Findings

The Board generally developed realistic budgets. However, the budgets were not structurally balanced.

- The Board used fund balance to finance operations, resulting in the four main operating funds' combined unrestricted fund balance declining from \$1,165,418 as of January 1, 2018 to \$403,003 as of December 31, 2020, a decrease of 65 percent.
- If the Board continues to use fund balance at the current levels, it could deplete fund balance in the general town-wide fund by the end of 2024.
- The Board did not adopt a written multiyear financial plan and written fund balance policy, which limits transparency.

Key Recommendations

- Adopt structurally balanced budgets that help ensure recurring expenditures are financed by recurring revenues.
- Adopt a written multiyear financial plan and a written fund balance policy.

Town officials generally agreed with our findings and recommendations and indicated they will take corrective action. Appendix B includes our comment to clarify an issue raised in the Town's response.

Background

The Town is located in Orleans County and is governed by an elected five-member Board, including the Town Supervisor (Supervisor). The Board is responsible for the general oversight of operations and finances.

The Supervisor is the Town's chief financial officer and budget officer and is responsible for maintaining accounting records and financial reporting. The Town uses an outside firm for accounting services and annual reporting.

The Town provides various services to its residents. Because the Village of Albion (Village) is within the Town's boundaries, the Town's services are accounted for in seven operating funds.

Quick Facts

2020 Appropriations (All funds)	\$2,497,566
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Total Fund Balance Used

2018	\$92,387
2019	\$328,094
2020	\$132,197
2021 (Planned)	\$328,288

Audit Period

January 1, 2018 – February 3, 2021

Financial Management

How Should a Board Develop and Monitor Realistic and Structurally Balanced Budgets?

A board is responsible for adopting realistic budgets based on historical trends and other known factors. This helps ensure that recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. Fund balance is the difference between revenues and expenditures accumulated over time.

When adopting the annual budget, a board may also consider using fund balance to help finance appropriations. If the board determines that the town has excess amounts of fund balance relative to its needs, the board can appropriate fund balance in the budget. While it may be fiscally prudent to do so, the board should be cautious and properly plan its use of fund balance, as it is a one-time financing source that results in a budget that is not structurally balanced. Consistently appropriating fund balance to finance operations, instead of planning to use recurring revenue sources, can deplete fund balance to levels that are insufficient to cover unexpected contingencies and routine cash flow.

Furthermore, a town should maintain a reasonable level of unrestricted fund balance to address unanticipated expenditures or revenue shortfalls. Once the budget is adopted, a board should monitor the progress of revenues and expenditures throughout the year to identify any variances. If variances arise, the board should take appropriate corrective action including budget amendments or budget transfers.

To maintain good fiscal health, it is imperative that town officials adequately plan for current and future needs. This can be accomplished, in part, by creating a comprehensive written multiyear financial plan and written fund balance policy. When updated and properly used, such a policy or plan allows officials to identify developing revenue and expenditure trends, set long-term priorities and goals, avoid potential large fluctuations in real property taxes and assess the effect their decisions will have on fund balance levels.

The Board Generally Adopted Realistic Budgets but Consistently Appropriated Fund Balance to Balance the Budget

The Town has seven operating funds: general town-wide, general town-outside-village, highway town-wide, highway town-outside-village, sewer, water and fire protection. The Board generally adopted realistic budgets for each of these funds, meaning budgeted revenues and appropriations were reasonable compared to actual revenues and expenditures, with the exception of the general town-wide fund in 2019. Town officials overspent the general fund town-wide modified appropriations by \$33,111 (5 percent). The Board monitors the budget on a monthly basis, reviewing budget-to-actual results and modifying the budget

periodically, as evidenced by the Board minutes and our discussions with the Supervisor.

While the Board generally adopted realistic budgets, the budgets were not structurally balanced. The Board has consistently appropriated fund balance as a funding source to finance recurring expenditures and balance the budget. As a result, the Town's fund balance has declined.

The planned use of fund balance has increased from \$147,749, or 10 percent of appropriations, in the 2018 budget to \$328,288, or 20 percent of appropriations, in the 2021 budget. The use of fund balance was as high as 25 percent in 2019 (Figure 1).

Figure 1: Appropriated Fund Balance

Fund	2018	2019	2020	2021
General Town-Wide	\$94,822	\$167,394	\$176,629	\$130,776
General Town-Outside-Village	20,000	124,087	75,899	93,311
Highway Town-Wide	32,427	0	66,509	78,646
Highway Town-Outside-Village	500	129,847	49,985	25,555
Total Appropriated Fund Balance	\$147,749	\$421,328	\$369,022	\$328,288
Total Appropriations	\$1,463,389	\$1,684,549	\$1,732,921	\$1,657,335
Percentage of Appropriations	10%	25%	21%	20%

Although the amounts of fund balance used were not as high as budgeted for, three of these funds had an operating deficit in at least one or more of the past three years (Figure 2). The large operating deficit in the general town-outside-village fund in 2019 was because Town officials improperly budgeted and recorded \$122,414 of sales tax revenue in the highway town-wide fund instead of in the general town-outside-village fund. In 2020, Town officials took corrective action and recorded sales tax in the general town-outside-village fund as required by New York State Tax Law.¹

Town officials told us they recorded sales tax in the highway town-wide fund in 2019 because the general town-outside-village fund had the highest fund balance and, therefore, they used fund balance instead of sales tax to finance operations. Without this revenue, the highway town-wide fund would have had an operating deficit of (\$117,430) and the general town-outside-village fund would have had an operating surplus of \$22,611.

...[U]se of fund balance has increased from \$147,749... in the 2018 budget to \$328,288... in the 2021 budget.

¹ New York State Tax Law provides that if a town and the villages within the town elect to receive their shares of county sales tax directly from the county (which is the case with the Town and Village), the town shall first apply its share to reduce taxes levied for town-outside-village activities. If any balance remains, at the discretion of the town board, it may be applied to reduce general town-wide taxes or county taxes levied in the area of the town outside of such villages or used for part-town activities, or any combination thereof.

Figure 2: Operating Results

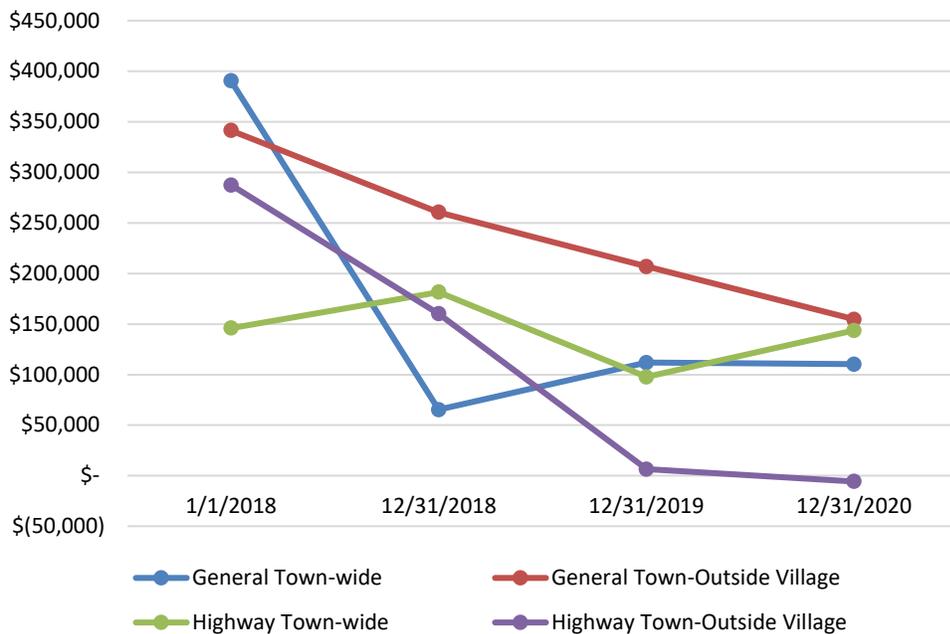
Fund	2018	2019	2020	Total Operating Surplus (Deficit)
General Town-Wide	(\$122,889)	(\$130,790)	(\$131,990)	(\$385,669)
General Town-Outside-Village	23,228	(99,803)	37,512	(39,063)
Highway Town-Wide	4,598	4,984	49,134	58,716
Highway Town-Outside-Village	(1,324)	(102,485)	16,864	(86,945)
Total	(\$96,387)	(\$328,094)	(\$28,480)	(\$452,961)

In addition, Town officials told us that the 2019 operating deficit in the highway town-outside-village fund was caused by higher than anticipated expenditures. As such, these operating deficits have resulted in decreases in unrestricted fund balance for three of these funds, with an overall decrease of \$762,415 (65 percent), from \$1,165,418 as of January 2018 to \$403,003 as of December 31, 2020.

With the exception of the highway town-wide fund, the main operating funds have had significant decreases in unrestricted fund balance between January 1, 2018 and December 31, 2020 (Figure 3).

FIGURE 3

Change in Unrestricted Fund Balance



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- The general town-wide fund decreased from \$390,504 at the beginning of 2018 to \$110,363 at the end of 2020, a decrease of \$280,141 (72 percent).
 - The general town-outside-village fund decreased by \$186,784 (55 percent) from \$341,459 to \$154,675.
 - The highway town-outside-village fund had the most significant decrease of \$293,089 (102 percent), from a positive \$287,433 to a negative balance of (\$5,656).
 - The highway town-wide fund decreased slightly from \$146,022 to \$143,621.

The Town's 2021 budget includes the use of \$130,776 in fund balance in the general town-wide fund which, if used, will further reduce fund balance. For the four main operating funds, unrestricted fund balance has already decreased by 65 percent over the last three years. This consistent use of fund balance as a financing source could eventually deplete unrestricted fund balance to levels that result in cash flow issues or insufficient funds to cover unexpected expenditures or revenue shortfalls. If the Board continues to use fund balance at the current levels, it could deplete fund balance in the general town-wide fund by the end of 2024.

The Board Did Not Adopt a Written Multiyear Financial Plan or Written Fund Balance Policy

The Board has not adopted a written multiyear financial plan or a written fund balance policy to document a transparent plan for the use of fund balance. Such plans would be useful tools for the Board to outline the use of fund balance and to create structurally balanced budgets. The Supervisor told us these operating deficits were planned to reduce unrestricted fund balance amounts to desired levels of between 20 to 60 percent of appropriations for each fund. As of the end of 2020, unrestricted fund balance for the four main operating funds, as a percentage of the next year's appropriations, was as follows: general town-wide 17 percent, general town-outside-village 43 percent, highway town-wide 30 percent and highway town-outside-village negative 3 percent.

In addition, there is no adopted written policy or resolution indicating the Board's intent to reduce or manage fund balance at certain levels. Continued use of fund balance to finance operations without a multiyear financial plan or planned fund balance levels could lead to its depletion. Without fund balance, the Board would have to find alternative sources of revenues to finance the current level of expenditures and to maintain the same level of services or reduce services.

Continued use of fund balance to finance operations without a multiyear financial plan or planned fund balance levels could lead to its depletion.

What Do We Recommend?

The Board should:

1. Adopt structurally balanced budgets to help ensure recurring expenditures are financed with recurring revenues and align the use of appropriated fund balance with an adopted multiyear financial plan and fund balance policy.
2. Budget and record sales tax revenue in the appropriate funds, and consult with legal counsel on whether the funds should be paid back.
3. Monitor the budget to determine whether revenues and expenditures are meeting budgetary expectations and take corrective action as needed.
4. Develop and adopt a written multiyear financial plan and a written fund balance policy to help guide fund balance management and provide additional transparency.

Appendix A: Response From Town Officials

TOWN of ALBION, NY

3665 Clarendon Road
Albion, New York 14411
585-589-7048

F. Richard Remley
Supervisor

May 20, 2021

Mr. Jeffery D Mazula
Chief Examiner
295 Main Street
Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula:

This letter is in response to the Office of the State Comptroller's (OSC) Examination of the Town of Albion. The OSC's review and recommendations mirror concerns and discussions of the Town during its budgeting process for the 2021 fiscal year. We have reviewed the draft report for January 1, 2018 through February 3, 2021 and would like to comment on your findings and recommendations.

Recommendation 1 – The Town relies heavily on revenues from property taxes and sales tax and does not have other significant revenue sources that other larger municipalities might have. In general we believe in conservative budgeting and prefer to maintain larger fund balances to compensate for years in which larger expenditures are required. The Town has experienced several of these years in a row, however, it is expected that those larger expenditures have been completed and we can begin to restore fund balances to more appropriate levels.

Recommendation 2 – We budget sales tax to outside village funds as required by law. Fund balances had increased significantly in those funds by 2019, and we felt that it was inappropriate to allocate additional tax revenues. Since there were no property taxes being raised for those funds, and sales tax revenue was not needed, our understanding was that it was appropriate to allocate sales tax to the Highway Town-Wide Fund. If this understanding is incorrect, please inform us and we will seek guidance on the best way to correct the situation.

Recommendation 3 – The Town Board receives monthly reports on its financial activities, including an Executive Summary that reports the sources of its receipts and the relative percentage of expenses against budget. We believe we have taken corrective action when needed.

See Note 1 Page 9

Recommendation 4 – The Town has a multi-year plan for its highway equipment, which represents most major capital expenditures, and an unofficial policy for fund balances. We are currently working on formalizing these plans.

We appreciate your review of our finances and will be addressing the fund balances as requested and will be addressing the fund balances and will make adjustments as deemed necessary.

Sincerely,

F. Richard Remley

Appendix B: OSC Comment on the Town's Response

Note 1

The Town must first use the sales tax expected to be received from the County to reduce real property taxes levied for town-outside-village activities, which includes a fire protection district that is coterminous with the town-outside-village. In 2019, the Town levied real property taxes of \$100,000 for its coterminous fire protection district and was required to use \$100,000 of the sales tax to reduce that real property tax to zero before using it for other purposes. The remaining balance of the expected sales tax money could be used for any of the following or a combination thereof: to reduce town-wide taxes, to reduce county taxes levied in the area of the town outside the village, or for part-town activities.

Appendix C: 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 minutes to gain an understanding of the Town's budgeting practices. We determined whether the Board adopted applicable written policies or multiyear plans and whether any long-term plans addressed fund balance management.
- We reviewed adopted budgets and various accounting records, including annual financial reports, to determine whether the Board adopted structurally balanced budgets from 2018 through 2021. We also determined the operating results for each major operating fund from 2018 through 2020 and projected operating results for 2021.
- We reviewed financial activity and analyzed the fund balance, and any trends, for each major operating fund from 2018 through 2020.

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 Board to make the CAP available for public review in the Town Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

<https://www.osc.state.ny.us/local-government/publications>

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

<https://www.osc.state.ny.us/local-government/publications>

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

<https://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.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/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

<https://www.osc.state.ny.us/local-government/publications>

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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