

# Town of Milo

## Financial Condition

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APRIL 2021

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

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# Report Highlights

## Town of Milo

### Audit Objective

Determine whether the Town Board (Board) effectively managed the Town of Milo's (Town) financial condition.

### Key Findings

The Board did not effectively manage the Town's financial condition. More real property taxes and user fees were levied than needed to fund operations.

- The Board did not adopt realistic budgets for each of its funds from 2017 through 2020, multiyear financial and capital plans or the following policies:
  - Fund Balance
  - Reserve
  - Budgeting
- As of December 31, 2020, the general, highway and water funds unrestricted fund balances were excessive, ranging from 97 percent to 178 percent of 2020 expenditures.

### Key Recommendations

- Include more realistic estimates of revenues and expenditures when developing and adopting the annual budgets.
- Use surplus funds as a financing source for funding one-time expenditures, needed reserves and/or reducing real property taxes.
- Establish budgeting, fund balance and reserve policies and develop multiyear financial and capital plans.

Town officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

### Background

The Town, located in Yates County, is governed by an elected Board composed of four Board members and the Town Supervisor (Supervisor).

The Board is responsible for the general management and control of financial affairs, including adopting the annual budget and establishing financial policies. The Supervisor serves as the chief executive and fiscal officer.

The Town provides services to its residents, including street maintenance and improvements, snow removal, fire protection, water, sewer, justice court and general government support. These activities are accounted for within the town-wide (TW) general and highway funds, town-outside village (TOV) general and highway funds, water and sewer district funds.

#### Quick Facts

##### 2020 Expenditures

TW General Fund	\$447,537
TOV General Fund	\$110,274
TW Highway Fund	\$465,120
TOV Highway Fund	\$408,807
Water Fund <sup>a</sup>	\$289,121
Sewer District	\$ 274,980
Population	7,006

<sup>a</sup> The Town has two water districts accounted for within the water fund.

### Audit Period

January 1, 2017 – December 31, 2020

# Financial Management

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## What Is Proper Financial Management?

A board is responsible for making 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 town residents with the ability and willingness of the residents to pay for such services. A board should ensure that budget estimates of revenues and expenditures are reasonable and based on historical or known trends.

A reasonable portion of fund balance may be retained for unforeseen circumstances and to provide cash flow – for example, to compensate for timing differences between when revenues are received and expenditures are made.

A board can also legally set aside, or reserve, a portion of fund balance to finance future costs for specific purposes (e.g., capital improvements or vehicle replacements). Properly funded reserves can reduce reliance on debt to finance capital projects and other acquisitions and can help town officials finance the costs of capital expenditures.

Prudent fiscal management requires the board to establish long-term financial and capital plans. Planning on a multiyear basis allows town officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budget decisions on future fiscal years. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period.

Continually monitoring and updating these plans provides a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate, refer to our publications [Multiyear Financial Planning](#) and [Multiyear Capital Planning](#).

## The Board Did Not Effectively Manage Financial Condition

The Board adopted unrealistic budgets for each of its funds from 2017 through 2020. Revenues were underestimated each year in the TW general fund, and both TW and TOV highway funds, while revenues in the water fund and sewer district were overestimated.

Appropriations were overestimated in all funds. As a result, more real property taxes and user fees than necessary were raised and operating surpluses occurred, increasing unrestricted fund balance to excessive levels.

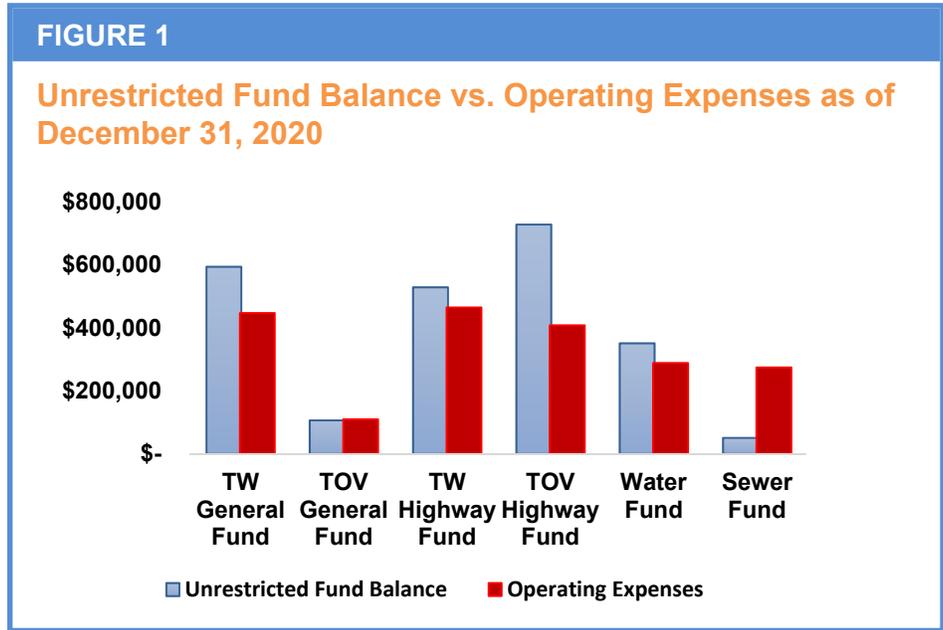
Unrestricted fund balance, as of December 31, 2020, for the TW and TOV general, TW and TOV highway and water funds was excessive as a percentage of 2020 expenditures ranging from 97 to 178 percent (Figure 1). When officials

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...[M]ore  
real property  
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levels.

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have available surplus funds equal to an entire year's expenditures at year-end, unrestricted fund balance is excessive.



The Board did not adopt a fund balance policy to establish the levels of and the rationale for the amount of fund balance to be maintained within each fund. In addition, the Board did not establish or use reserves in any of its main operating funds (TW general, TOV general, TW highway and TOV highway).

As a result, the fund balance in the Town's operating funds was comprised entirely of unrestricted funds. Officials told us that there have been discussions about establishing a fund balance policy and reserves for the operating funds, but no action has yet been taken.

We reviewed the Town's operating results through December 31, 2020, and the 2021 adopted budget and determined that the Board did not address prior years' budgeting inaccuracies. By continuing to include unrealistic estimates in its adopted budgets, the Board is limited in its ability to effectively manage the high levels of fund balance in its operating funds.

**The Board Did Not Adopt Formal Multiyear Plans**

The Board did not develop written comprehensive multiyear financial and capital plans that set long-term objectives and goals. Such plans would be useful to address the large fund balances in the Town's operating funds and to maintain a reasonable level of unexpended surplus funds at year-end. The plans could

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The Board did not develop written comprehensive multiyear financial and capital plans that set long-term objectives and goals.

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outline the Board's intentions for financing future capital improvements and maintaining the existing infrastructure.

Town officials told us that they maintained excess fund balance in the water fund to cover the cost of repairs and upgrades to the infrastructure. However, officials had no formal plans in place. Further, fund balance in the sewer district was insufficient to cover the costs of engineering and legal fees incurred for a capital project, and as a result these expenditure were paid for from the TW general fund.

Although the Highway Superintendent kept an equipment replacement schedule that was prepared in conjunction with the Board's Highway Committee, the Board has not formally approved or adopted it. The schedule lists the Town's current equipment inventory, purchase price and remaining useful life, but does not include replacement cost projections. According to the informal replacement schedule, the Town may expend approximately \$400,000 for equipment over the next three years.

Without developing formal multiyear financial and capital plans, and establishing reserve funds which correlate with these plans, the Board cannot adequately plan for the future and there is a risk that the Board's intentions for the Town will not be fulfilled.

Our fieldwork was completed in December 2020, during the COVID-19 pandemic. Given the negative financial effect of the pandemic, it is even more important for Town officials to develop and monitor appropriate annual budgets and begin multiyear financial and capital planning.

## **What Do We Recommend?**

The Board should:

1. Establish written policies and procedures governing the budgeting process, which include defining the amounts of fund balance that the Town should reasonably maintain.
2. Adopt budget estimates that are based on available current data and historical trends.
3. Develop a plan to reduce the amounts of fund balance in a manner that benefits Town taxpayers. Surplus funds can be used as a financing source for:
  - Funding one-time expenditures
  - Funding needed reserves

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- Paying off debt
  - Reducing property taxes and user fees
4. Develop comprehensive multiyear financial and capital plans that set long-term objectives and goals. These plans should be monitored and updated on an ongoing basis.

# Appendix A: Response From Town Officials



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Patricia L. Christensen, Town Clerk

Michael J. Christensen, Town Justice

Patrick Grimaldi, Town Assessor

Lance Yonge, Highway Superintendent

Tony Validzic, Code Enforcement Officer

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Rochester Regional Office  
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Rochester, NY 14614-1608

RE: Town of Milo response to audit #2020M-172

Dear Chief Examiner Grant,

We reviewed the Financial Management audit report draft prepared by your office. While we agree that you raise some good points, we disagree with your opinion that the Board has not effectively managed the financial condition of the Town. We have an informal capital plan for our highway equipment and a basis for maintaining our fund balances that are reviewed annually by the Board and discussed at budget meetings that are open to the public. In our response, we will address each of your specific recommendations with our audit response and corrective action plan.

#### OSC Recommendation 1

**Audit response:** We are a fiscally conservative Board that takes the Town's financial affairs seriously. We work and consult with a certified accounting firm to develop and manage a conservative budget. As such our Town has not exceeded the State's Property Tax Cap limit which is the lesser of two percent or the rate of inflation. We have made it a priority not to burden our taxpayers with debt.

**Corrective Action:** We will formalize in writing the guiding principles that are used in preparing the Town's budget. We will develop and implement a fund balance policy to be presented to the board for consideration during the 2022 budget process.

#### OSC Recommendation 2

**Audit response:** The Town does rely on prior year actuals when establishing the annual budget. In recent years the economic development in our area has made it challenging to budget for example engineering and attorney's fees. The Town has also been trying to remedy the water and sewer budgets and is working with an engineering firm to determine proper rates to support the ongoing operation and maintenance of these funds.

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**Corrective Action:** As mentioned under Recommendation 1 the Town will formalize in writing the guiding principles that are used in preparing the Towns budget.

**OSC Recommendation 3**

**Audit response:** We would like to note that the Town was awarded a \$450,000 DASNY Grant in 2016 to help fund the Bath Road Sewer Extension Project (Yates County Airport vicinity). This project had been identified by local and county government and planning agencies as an area of high potential for economic development. To date we have not received word from the State to confirm if this grant will be honored. In good faith the Town moved forward on this project but without confirmation from the State, excess fund balances were not placed in reserves so that the Town could be in a position to finance the project internally.

**Corrective action:** We will use the fund balance policy drafted during the 2022 budget process to guide the use of available fund balance.

**OSC Recommendation 4**

**Audit response:** The Town developed a highway equipment replacement schedule years ago and uses it to plan for the funding and replacement of said equipment. Through this planning the Town has been able to replace equipment without relying on long term financing. Also as noted in our audit response under Recommendation 3 the Town has been placed in a difficult position for a number of years due to the lack of response from New York State related to the 2016 \$450,000 DASNY Grant award. This has hindered the Town's ability to set long-term objectives and goals relative to capital projects.

**Corrective action:** The Town will formalize in writing the objectives and goals of the equipment replacement schedule for long term planning during the 2022 budget process. We are hopeful that there will be some form of resolution with the State regarding the \$450,000 DASNY Grant in 2021.

While we do not agree with the basic premise of your audit, we appreciate your review and comments. They help us evaluate the decisions and processes we follow.

Very truly yours,

Leslie Church  
Supervisor  
Town of Milo

## Appendix B: Audit Methodology and Standards

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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 budget process and to determine whether the Board adopted relevant policies and multiyear plans.
- We compared budgeted revenues and appropriations to the actual revenues and expenditures for all funds for 2017 through 2019 to determine whether budgets were realistic.
- We compared the 2020 budgeted revenues and appropriations for all funds to the year-to-date actual results to determine whether the 2020 budget was realistic.
- We reviewed the 2021 adopted budget to determine whether the Board addressed prior years' budgeting issues.
- We reviewed fund balance levels for all funds and districts for 2017 through 2019 to determine whether balances were reasonable.
- We obtained ending fund balance levels for 2020 from operating reports issued through December 31, 2020 and related payroll and accounts payable data.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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.

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 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 C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional\\_directory.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf)

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

[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263196&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All)

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

[www.osc.state.ny.us/local-government/fiscal-monitoring](http://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

[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263206&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All)

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

[www.osc.state.ny.us/local-government/resources/planning-resources](http://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

[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/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](http://www.osc.state.ny.us/local-government/required-reporting)

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## Contact

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