Town of Sheldon

Financial Management

FEBRUARY 2018
Audit Objective
Determine whether the Board effectively managed and monitored fund balance.

Key Findings
- The Board did not adopt an adequate fund balance policy.
- The Board and Town officials did not prepare a multiyear financial plan.

Key Recommendations
- Revise the fund balance policy to ensure a reasonable amount of unrestricted fund balance is maintained.
- Develop a multiyear financial plan.

Town officials agreed with our recommendations and indicated they planned to initiate corrective action.

Background
The Town of Sheldon (Town) is located in Wyoming County. The Town Board (Board) is responsible for overseeing the Town’s operations and finances, including budget development and adoption and developing long-term financial plans.

The Town receives a significant portion (58 percent) of its revenues from serving as a wind turbine host community. The wind power revenue is received annually in November.

Quick Facts
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<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>18</td>
</tr>
<tr>
<td>Population</td>
<td>2,409</td>
</tr>
<tr>
<td>2017 General Fund Budgeted Appropriations</td>
<td>$432,876</td>
</tr>
<tr>
<td>2017 Highway Fund Budgeted Appropriations</td>
<td>$1,082,111</td>
</tr>
</tbody>
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Audit Period
January 1, 2014 – September 28, 2017
What Is Effective Fund Balance Management?

The Board should maintain a reasonable level of unrestricted fund balance consistent with prudent budgeting practices, to ensure the orderly operation and continuation of Town services. Unrestricted fund balance may be used to fund unexpected occurrences and provide cash flow or can be set aside in reserves for future needs. The Board should determine a reasonable level of unrestricted fund balance after considering various factors such as the timing of receipts and disbursements and the volatility of revenues and expenditures. Also, contingency appropriations in the adopted budget and reserve funds may offset the amount needed in unrestricted fund balance. The Board should adopt a policy that indicates how these factors will be applied in determining the appropriate level of unrestricted fund balance. This policy can be used from year to year in preparing the budget to ensure that unrestricted fund balance is consistently maintained at an adequate level.

The Board Did Not Adopt An Adequate Fund Balance Policy

The Board adopted a fund balance policy stating that the Town should adopt budgets with an unrestricted fund balance level of not less than 15 percent and no more than 100 percent of the total operating general and highway fund expenditures. The policy does not address any factors that would affect the level of fund balance, such as the timing of the Town’s receipts and disbursements (cash flow), the volatility of revenues and expenditures, or the need to create reserve funds, and whether to include contingency appropriations in the annual budget. This information would help the Board and Town officials determine a reasonable level of fund balance to retain.

Fifty-eight percent of the Town’s budgeted revenues are derived from serving as a wind turbine host community. This revenue is normally received in November each year. Since the Town will have paid the bulk of its annual expenditures before this revenue is received, the Board should use a cash flow analysis to estimate a reasonable amount of unrestricted fund balance to maintain each year to help fund these costs. Officials could not provide evidence of the use of cash flow analysis to help them determine a reasonable level of unrestricted fund balance to maintain.

A greater level of unrestricted fund balance may be needed if a significant amount of annual disbursements are expected before the receipt of this revenue. Conversely, unrestricted fund balance may already be at a high enough level to provide a financial cushion during periods of low cash flow.
Furthermore, the Town did not establish any reserve funds, which provide a means to accumulate money for future expenditures. Reserves can be used in conjunction with a capital plan to fund large capital acquisitions such as building construction or improvement and machinery purchases.

The Town Supervisor told us that the Town imposed a tax levy in 2016 and 2017 because officials believed the Town would deplete operating cash before it received the wind energy revenue in November. We compared the 2016 and 2017 budget and did not identify significant decreases or depletion of any other revenue sources.

The Town had sufficient cash flow and imposed a tax levy that was higher than necessary. We analyzed the Town’s cash flow for the past three years to determine whether operating cash was depleted before November of each year. The lowest level of operating cash balance was $377,200 in 2014 (August) and $159,600 in 2015 (September). In 2016, the lowest cash balance was $135,800 (October), excluding the cash generated by the real property tax levy. We also reviewed cash flow in 2017 to date and found that, excluding the cash generated by the real property tax levy, the lowest cash balance was $183,700 (September).

The Town’s unrestricted fund balance has also significantly increased as a result of annual operating surpluses (Figure 1). Over the three-year period (2014-2016) the combined unrestricted fund balance from the general and highway funds increased by approximately $600,000 to more than $1.3 million as of December 31, 2016. We project that at the end of 2017 the Town will have a combined unrestricted fund balance of more than $1.4 million, or 95 percent of combined 2018 general and highway fund appropriations.

![Figure 1: Total Operating Surplus/(Deficit) vs. Tax Levy](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Tax Levy</th>
<th>General Fund Surplus/(Deficit)</th>
<th>Highway Fund Surplus/(Deficit)</th>
<th>Total Operating Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$0</td>
<td>$142,100</td>
<td>$64,300</td>
<td>$206,400</td>
</tr>
<tr>
<td>2015</td>
<td>$0</td>
<td>($7,200)</td>
<td>$130,300</td>
<td>$123,100</td>
</tr>
<tr>
<td>2016</td>
<td>$228,100</td>
<td>$129,900</td>
<td>$140,500</td>
<td>$270,400</td>
</tr>
<tr>
<td>2017</td>
<td>$224,800</td>
<td>$170,000&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
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</tbody>
</table>

<sup>a</sup> Total tax levy for the general and highway funds

<sup>b</sup> Projected based on available information as of October 2017. Because Town officials transfer funds from the general fund to the highway fund as needed throughout the year, we could not project the surplus by specific fund.

1. Includes the general and highway funds.
2. Our analysis excludes $122,600 of fund balance that was appropriated as a financing source in the 2018 tentative budget.
A comprehensive fund balance policy that addresses the timing of the Town’s receipts and disbursements (cash flow), the volatility of revenues and expenditures, reserve funds and contingency appropriations will help ensure that unrestricted fund balance is maintained at a reasonable level and real property taxes are not higher than necessary.

**Why Should the Town Have a Multiyear Financial Plan?**

Multiyear financial planning enables the Board and Town officials to identify revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. It also allows officials to assess the merits of alternative approaches (such as appropriating unrestricted fund balance or establishing and using reserves) to finance its operations. A reasonable, stable unrestricted fund balance is also an element of effective long-range planning and can have several benefits including reducing reliance on short-term borrowings and stabilizing tax rates.

The Board should develop a comprehensive multiyear financial plan that sets long-term priorities and goals and future capital needs. Any long-term financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

**The Town Has Not Developed a Multiyear Financial Plan**

The Board and Town officials did not develop a multiyear financial plan. Had such a plan been in place, it would have been a useful tool for the Board to use to identify revenue and expenditure trends and consider the impact of budgeting decisions on future fiscal years.

Without developing and maintaining a long-range financial plan or an adequate fund balance policy, the Board runs the risk of not properly funding reserves or of levying more taxes than necessary if adequate financial resources are already available.

**What Do We Recommend?**

The Board should:

1. Review and update the fund balance policy to address various factors that affect unrestricted fund balance levels, such as the timing of cash receipts and disbursements.
2. Use a cash flow analysis to help determine a reasonable amount of unrestricted fund balance to retain each year.

3. Consider establishing reserves to fund capital acquisitions and to provide for unforeseen expenses.

4. Develop a multiyear financial plan to provide a framework for future budgets and facilitate the management of Town operations. This plan should be updated annually.
February 2, 2018

Office of the State Comptroller
Jeffrey D. Mazula, Chief Examiner
Local Government and School Accountability
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Re: Response Letter and CAP from the Town of Sheldon regarding “Financial Management” audit

Dear Mr. Mazula,

The Town of Sheldon Supervisor and Board Members have received and reviewed the Office of the State Comptroller’s draft audit report for the period of January 1, 2014 – September 28, 2017 entitled “Town of Sheldon - Financial Management”. This letter shall serve as Town of Sheldon’s response and Corrective Action Plan and acceptance of the report.

On behalf of the Town, we appreciate the feedback and have provided our Corrective Action Plan herein. We are pleased the audit did not identify any instances of fraud or misappropriation of funds.

**Corrective Action Plans**

- The Town Board will create a detailed Fund Balance Policy by September 2018 that addresses the timing of the windmill revenue and any other factors that would affect the level of fund balance to help determine a reasonable level of fund balance.

- Moving forward, the Town Bookkeeper will prepare a Cash Flow Analysis on a monthly basis for the Board to use as another tool to maintain a reasonable level of fund balance. This will also help us determine if a tax levy is needed.

- The Board and Town officials will develop a multiyear financial plan by the end of September 2018. This plan will be reviewed and updated as needed to help with budgeting decisions.
Again the Town of Sheldon would like to thank the Comptroller’s Office for their assistance and pointing out the importance of the Fund Balance Policy, Cash Flow Analysis, and a Multiyear Financial Plan. We hope you find the Corrective Action Plan listed above acceptable.

Sincerely,

Brian W. Becker
Town of Sheldon Supervisor
Appendix B: 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, we performed the following audit procedures:

- We reviewed the Town’s policies and procedures for information relevant to financial and budgeting activities.
- We interviewed Town officials to determine what processes were in place and gain an understanding of the Town’s financial situation and budget.
- We reviewed and analyzed the Town’s financial records, budget reports and real property tax levy.
- We reviewed and analyzed revenue and expenditures, budget-to-actual comparisons and fund balance levels and prepared a monthly cash flow analysis for the general and highway funds.

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.

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

Regional Office Directory
www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas
www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems
www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management
www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans
www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders
www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers
www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics
www.osc.state.ny.us/localgov/academy/index.htm
Contact
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Division of Local Government and School Accountability
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Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.state.ny.us
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