

Village of Franklin

Fund Balance Management

MAY 2018



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

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Report Highlights

Village of Franklin

Audit Objective

Determine whether the Board effectively managed the Village's fund balance.

Key Findings

- The general fund's year-end total fund balance increased by 46 percent from 2014-15 through 2016-17.
- Budgeted general fund appropriations in 2015-16 and 2016-17 exceeded expenditures by an annual average of 30 percent while actual revenues exceeded budgeted revenues in 2014-15 and 2015-16 by an annual average of 18 percent.
- Village officials have not developed multiyear financial or capital plans or a fund balance policy.
- The Clerk-Treasurer did not provide the Board with adequate financial reports.

Key Recommendations

- Develop and adopt a fund balance policy that establishes the level of fund balance to be maintained.
- Adopt budgets that include realistic estimates for revenues and expenditures.
- Develop and adopt a comprehensive multiyear financial and capital plan.
- Ensure that the Clerk-Treasurer provides adequate financial reports to the Board.

Except as specified in Appendix A, Village officials generally agreed with our recommendations. Appendix B includes our comment on an issue raised in the Village's response.

Background

The Village of Franklin (Village) is located in the Town of Franklin in Delaware County.

The Village is governed by an elected Village Board of Trustees (Board) composed of a Village Mayor (Mayor) and two Trustees. The Board is responsible for the general management and control of the Village's financial affairs, including adopting the annual budget and establishing financial policies. The Mayor serves as the chief executive officer and is responsible for the Village's day-to-day management. The Board appoints a Clerk-Treasurer, who serves as the chief fiscal officer and is responsible for maintaining accounting records and providing financial reports to the Board.

Quick Facts

Population	375
2017-18 General Fund Budgeted Appropriations	\$150,000

Audit Period

June 1, 2016 – November 10, 2017.
We extended our scope back to June 1, 2014 to analyze financial trends.

Fund Balance Management

What is Effective Fund Balance Management?

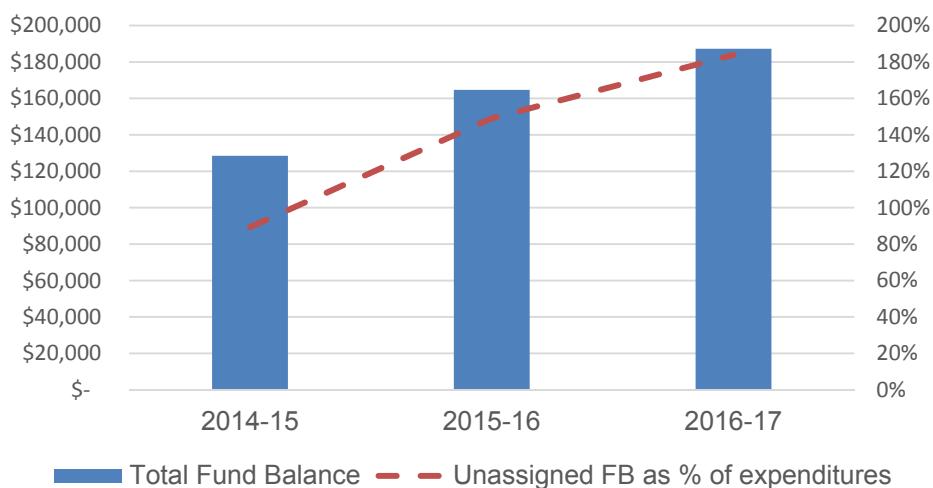
The board is responsible for effectively managing fund balance. The board may retain a reasonable portion of fund balance for cash flow purposes and to provide a cushion against unforeseen circumstances. An important component of fund balance management is planning for long-term priorities and goals. Having multiyear financial and capital plans 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 multiyear financial plan. The board may also establish and fund reserves to finance the future costs of a variety of items or purposes. The board should also adopt realistic and structurally balanced budgets, based on historical or known trends, in which recurring revenues finance recurring expenditures. The clerk-treasurer is responsible for providing accurate and timely financial reports to the board with adequate information for monitoring financial affairs.

Fund Balance Increased Due to Unrealistic Budgets

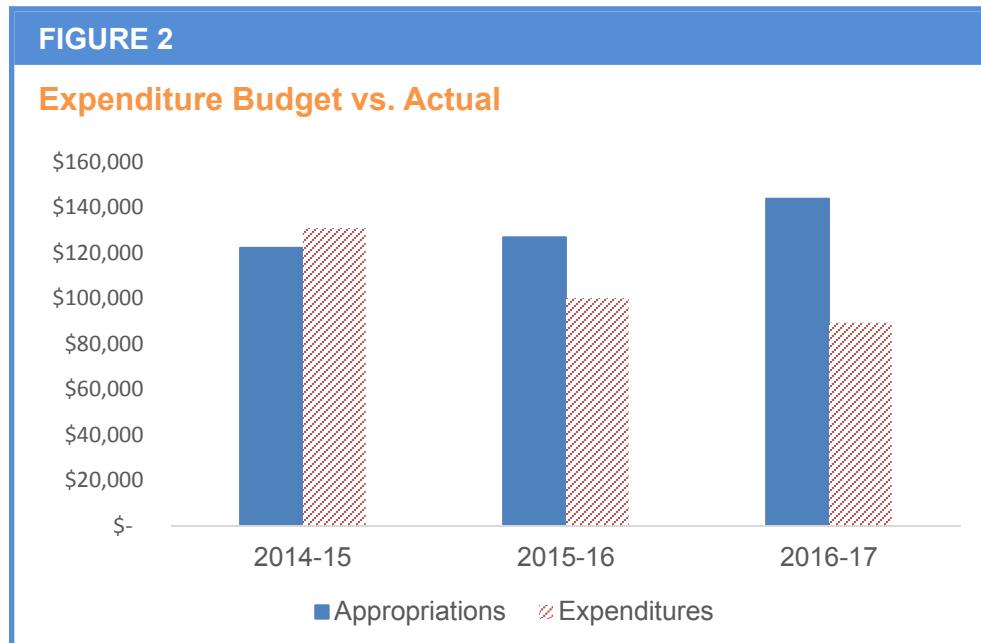
The Board should improve its management of fund balance in the general fund. At the end of 2014-15, fund balance was excessive and could have funded almost an entire year's expenditures. Since then total fund balance increased by almost \$59,000, or 46 percent, to \$187,300 for fiscal year-end 2016-17. As of May 31, 2017, the unassigned fund balance was 184 percent of actual expenditures (Figure 1). During the same period, Village officials unnecessarily increased real property taxes by 2.4 percent (or \$2,200).

FIGURE 1

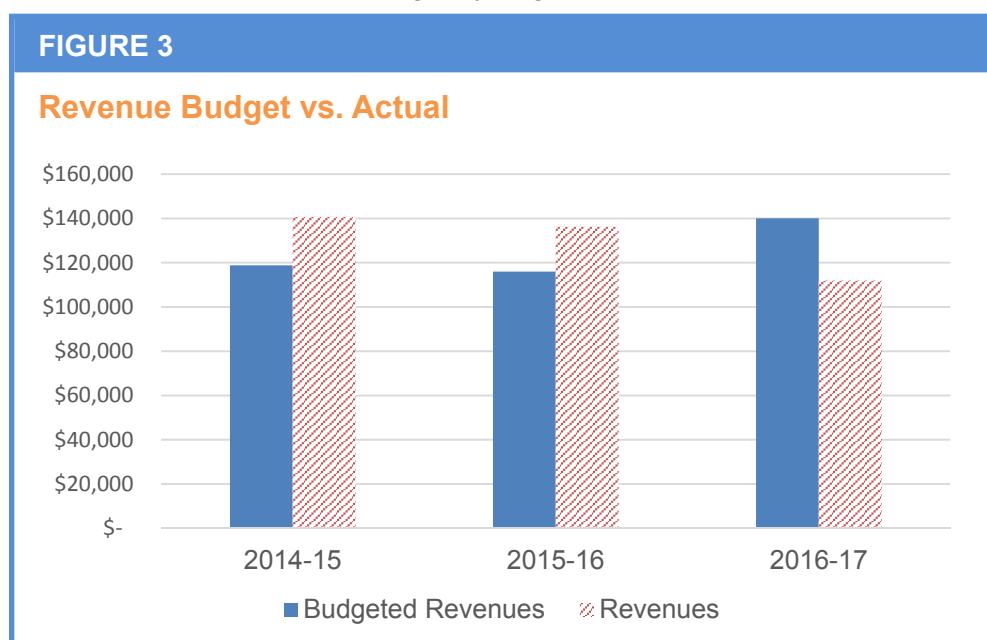
Total Fund Balances



This occurred because Village officials adopted unrealistic budgets. In 2015-16 and 2016-17, budgeted appropriations exceeded expenditures by an average of \$41,000, or 30 percent (Figure 2).



Furthermore, the actual revenues exceeded budgeted revenues in 2014-15 and 2015-16 by an average of \$21,000, or 18 percent. In 2016-17, the Board budgeted revenues more in line with the previous years' actuals. However, revenues were overestimated by over 20 percent because the Village did not receive \$25,000 from a State agency (Figure 3).



The expenditure variances were primarily due to overestimated appropriations for street maintenance equipment and street administration personal services, which are both relatively predictable. For example, for the street maintenance equipment in 2015-16 and 2016-17, Village officials used \$2,440 of the budgeted \$13,000 amount leaving a budget line variance of \$10,560, or 81 percent. Village officials budgeted the same amount for street administration personal services in all three years. Village officials told us that they budgeted for a part-time employee. However, a part-time employee has not been hired in at least the last three years. As a result, officials budgeted 29 percent, or \$10,100, more than needed each year for the street administration personal service line item.

The revenue variances in 2014-15 and 2015-16 were primarily due to misclassifying delinquent taxes¹ and underestimating Consolidated Local Street and Highway Improvement Program (CHIPS) revenues of \$21,300. Officials told us that the Village rarely receives CHIPS revenues and the Village was awaiting approval and payment from New York State.

We project similar patterns in revenue variances, while the expenditure variances seem to be more reasonable in the 2017-18 adopted budget. More specifically, we project the 2017-18 budgeted revenues were overestimated by \$29,000, or 20 percent, while appropriations were overestimated by \$14,400, or 10 percent.

Additionally, while the Board funded a capital reserve with \$11,000 in 2015-16, it has not developed any comprehensive multiyear financial and capital plans or a fund balance policy specifying the Board's objectives and goals for the funds. Without plans for the use of these and other accumulated funds, Village officials may have raised more real property taxes than necessary. The Board raised real property taxes by an annual average of 1.2 percent from 2014-15 through 2017-18.² We project in 2017-18, fund balance will decrease 13 percent to \$162,000, which could still fund more than one year's worth of expenditures.

The Board's budgeting practices, combined with significant fund balance levels, place an unnecessary tax burden on residents. Multiyear plans, properly established and budgeted reserve funds and a fund balance policy would provide more transparency to residents on the Board's strategy for addressing the excessive fund balance.

The Board Did Not Receive Adequate Financial Reports

The Clerk-Treasurer provided the Board with monthly Treasurer's reports detailing the monthly receipts and disbursements and cash balances. However, she did not provide the Board with budget-to-actual reports, which would allow the Board

¹ The Board adopts a local law every five years that waives the penalty for delinquent property taxes for a 60-day period, which assists in the collection of a large portion of the taxes.

² The tax levy increases were close to or exceeded the allowable real property tax levy limits.

to monitor budget line items during the year, or balance sheet reports, which would allow the Board to monitor fund balance levels. Without adequate financial reports, the Board's ability to effectively monitor the Village's financial affairs is diminished.

Although the Board did not receive financial reports, even the basic financial information they did receive should have alerted them that cash balances were high in relation to annual expenditures and that the balance was continuing to rise.

What Do We Recommend?

The Board should:

1. Continue to reduce the amount of fund balance in the general fund and use the excess as a financing source 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 realistic budgets that reflect the Village's operating needs based on recent trends, contracts or other projections.
3. Develop and adopt a comprehensive fund balance and reserve policy that addresses the Village's budgeting practices and establishes the levels of fund balance and reserves to be maintained and states what reserves will be used, how they will be funded and when they will be used.
4. Develop and adopt comprehensive multiyear financial and capital plans to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

The Clerk-Treasurer should:

5. Provide the Board with adequate monthly financial reports, including budget-to-actual reports and balance sheet reports with fund balance levels.

Appendix A: Response From Village Officials

**VILLAGE OF FRANKLIN
PO BOX 886
FRANKLIN, NY 13775
607-829-6776
1-800-662-1220 TDD/TTY**

April 10, 2018

[REDACTED]
Office of the State Examiner
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-8313

Dear [REDACTED]

As Mayor of the Village of Franklin, I am responding to your agency's Fund Balance analysis, conducted recently. The Trustees and I have reviewed the draft Report of Examination and we have found them very helpful. We agree to the findings and with the exception of one concern (over semantics) we are satisfied with the recommendations that you have provided us with.

On page 3, bullet 4, you have observed that the Clerk-Treasurer did not provide the Board with adequate financial reports. Although this may be true, in the present acrimonious political environment, this statement might be construed to mean that the Clerk-Treasurer was aware of the expectation that budget to actual reports should be produced monthly as part of her budget report and had willingly ignored doing so. Can I suggest that it might be more accurate to state that the Clerk-Treasurer inadvertently did not provide financial reports that meet currently accepted standards.

See
Note 1
Page 7

We will begin developing a corrective action plan immediately and are targeting July 1st as the response date for this document.

Respectfully,

Tom Briggs
Mayor

Village of Franklin is an equal opportunity provider and employer.
To file a complaint of discrimination, write: USDA, Director, Office of Civil Rights,
Washington, D.C. 20250-9410, or call (202) 720-5964 (voice or TDD)

Appendix B: OSC Comment on the Village's Response

Note 1

Our report did not address the intent of the Clerk-Treasurer's actions. Providing monthly budget-to-actual reports allows the Board to better monitor the budget line items during the year.

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:

- We interviewed Village officials and employees and reviewed Board minutes to gain an understanding of the budget process, what reports are provided to the Board throughout the year and whether the Board adopted budgeting and fund balance policies and multiyear financial and capital plans.
- We analyzed the trend in total fund balance in the general fund for the period 2014-15 through 2016-17 and compared the unassigned fund balance at year-end to the actual expenditures.
- We reviewed the general fund results of operations for the period 2014-15 through 2016-17.
- We compared the general fund's estimated revenues and appropriations in the original budget to the actual revenues and expenditures for 2014-15 through 2016-17 to determine if total estimated revenues and appropriations were realistic and to determine what line items or categories contributed the most to the Village's budget variances.
- We analyzed real property tax levy trends and compared the real property tax levy to the allowable tax levy limits for 2014-15 through 2017-18.
- We projected out the 2017-18 general fund revenues and expenditures. We compared these projections to the estimated revenues and appropriations in the original budget to determine if the trends continued. We also used our projections to estimate the ending fund balance for this year to determine if the increase in fund balance is expected to continue.

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 Clerk-Treasurer's office.

Appendix D: 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

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236
Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov
www.osc.state.ny.us/localgov/index.htm
Local Government and School Accountability Help Line: (866) 321-8503

BINGHAMTON REGIONAL OFFICE – H. Todd Eames, Chief Examiner
State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417
Tel (607) 721-8306 • Fax (607) 721-8313 • Email: Muni-Binghamton@osc.ny.gov
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