

Town of Seneca Falls

Financial Management

APRIL 2019



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

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Report Highlights

Town of Seneca Falls

Audit Objective

Determine whether the Board and Town officials effectively managed and provided oversight of the Town’s financial operations.

Key Findings

- In 2017, total unrestricted fund balances in the general, water and sewer funds were \$2.7 million, \$1.7 million and \$3.8 million. These amounts are excessive, representing 55 percent, 92 percent and 136 percent of 2018 appropriations for each respective fund.
- The Board has not adopted multiyear financial and capital plans or established adequate reserves.

Key Recommendations

- Establish written policies governing the amount of unexpended surplus funds that the Town should maintain.
- Adopt comprehensive multiyear financial and capital plans for a three- to five-year period, including a formal reserve plan.

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

Background

The Town of Seneca Falls (Town) is located in Seneca County. The Town is governed by an elected Town Board (Board), which is composed of a Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management and control of the Town’s financial affairs, including establishing financial policies and adopting and monitoring the annual budget. The Supervisor is the chief executive and chief fiscal officer. The Supervisor has appointed a principal account clerk (account clerk) to maintain the accounting records and assist in financial reporting and filing.

Quick Facts

Population	9,000
2018 Total Appropriations	\$11.8 million
2017 Total Expenditures	\$10.77 million

Audit Period

January 1, 2015 – July 10, 2018

We also extended the scope forward to December 4, 2018 to review budgeting trends for legal and engineering services.

Financial Management

How Does a Board Effectively Manage Financial Condition?

The board is responsible for making financial decisions that are in the best interest of the town and its taxpayers. The board may retain a reasonable portion of fund balance for unforeseen circumstances and to provide cash flow – for example, to compensate for timing differences between revenues and expenditures. Sound budgeting helps ensure that budgets include realistic estimates for revenues and expenditures and appropriate a reasonable amount of fund balance based on historical or known trends. The Board should establish written policies governing the unexpended surplus funds that should be maintained. If there are insufficient appropriations, a budget transfer moves funds from one appropriation account to another to avoid overdrawing the account. The board is responsible for monitoring expenditures to ensure they stay within annual appropriations and for reviewing budget status reports to determine if significant variances exist. Multiyear financial and capital plans for a three- to five-year period help the board assess long-term needs and alternative approaches to financial issues, such as accumulating fund balance, obtaining financing or using surplus funds to finance annual operations. The board can legally set aside or reserve portions of fund balance to finance future costs for a variety of purposes - for example, capital projects. A formal reserve plan should be adopted that clearly communicates to taxpayers the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund, and the optimal or targeted funding levels and conditions under which assets will be used or replenished.

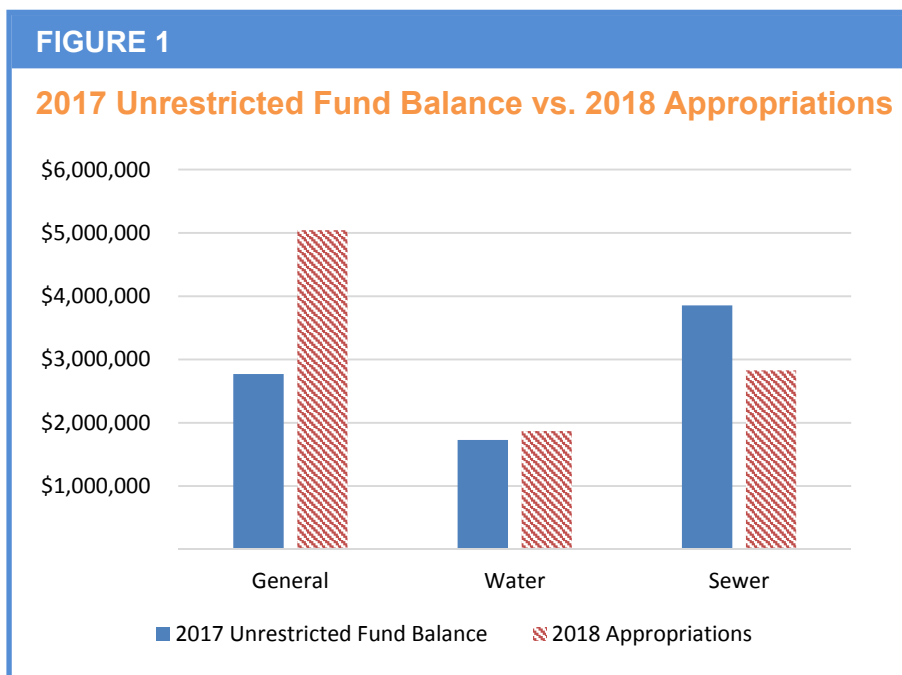
The Board Adopted Unrealistic Budgets, Which It Did Not Appropriately Monitor

The Board did not effectively manage and monitor the budgets for the general, water and sewer funds. As a result, total fund balance decreased significantly in the general fund between 2015 and 2017 by \$2.89 million¹ (68 percent), due primarily to a significant one-time expenditure for the Town hall capital project,² along with unbudgeted engineering and legal fees (see Figure 2). However, unrestricted fund balance of \$2.7 million at year-end or 55 percent of the 2018 appropriations, remains excessive. Additionally, unrestricted fund balance in the water and sewer funds increased between 2015 and 2017 by approximately \$830,000 (87 percent) and \$1.9 million (54 percent), respectively, totaling \$1.7 million and \$3.8 million (92 percent and 136 percent of the 2018 appropriations), respectively. These increases occurred because the Board did not adopt budgets that included realistic estimates for revenues and expenditures and fund balance or establish written policies governing the unexpended surplus funds that the Town should reasonably maintain.

1 \$2.5 million related to the use of the capital reserve for the Town hall project.

2 We also issued a separate audit report, *Town of Seneca Falls – Town Hall Capital Project (2018M-220)*.

Town officials informed us that the amounts in the water and sewer funds were going to be used for significant upgrades to these systems. However, because these funds are unrestricted, this intended purpose is not clear or formally established. Further, the Town has not adopted long-term plans to support maintaining such significant fund balance levels, as discussed below.



The variances in each fund were driven by a variety of factors, including inaccurately budgeting personnel and utility expenditures. Town officials stated that budgeting for these accounts is difficult because utility use and prices are variable and personnel are often changing due to salaries and pay rates, which also vary. Further, revenues received from the host agreement, which are based on the landfill’s annual revenues, were often under-budgeted.³

We identified a history of significant variances in accounts related to legal and engineering services, for which the Town expends significant funds annually. Due to current litigation and projects, these fees were significantly overexpended in 2018.

³ The Town has a host community agreement (host agreement) with a landfill that provides for quarterly payments to the Town based on a percentage of revenues from the previous quarter. Payments vary depending on revenues received.

Figure 2: Legal and Engineering Fees

Legal Fees	2015	2016	2017	2018 ^a
Appropriations	\$68,000	\$77,000	\$172,000	\$112,000
Actual Expenditures	\$70,178	\$193,114	\$140,619	\$271,492
Total Under (Over)				
Budget	(\$2,178)	(\$116,114)	\$31,381	(\$159,492)
% Appropriations Used	103%	251%	82%	242%
Engineering Fees	2015	2016	2017	2018 ^b
Appropriations	\$220,000	\$168,000	\$181,500	\$125,000
Actual Expenditures	\$426,540	\$364,329	\$183,877	\$563,918
Total Under (Over)				
Budget	(\$206,540)	(\$196,329)	(\$2,377)	(\$438,918)
% Appropriations Used	194%	217%	101%	451%
^a Through December 4, 2018				
^b Through December 4, 2018				

Historically, the Board did not receive or request budget status reports detailing the year-to-date results of each revenue and expenditure account and necessary budget modifications. Without this information, the Board did not have an accurate depiction of the Town's finances with which to make decisions. As a result, appropriation accounts were often overexpended and transfers were not made until year-end. As of May 2018, the account clerk began providing budget status reports to the Board prior to the monthly meeting.

The Board Did Not Adopt Multiyear Financial and Capital Plans

The Board did not develop and adopt comprehensive multiyear financial and capital plans. Such documents are especially important given the unknown nature of payments from the landfill under the host agreement. The Town is currently involved in litigation with the landfill and it is unclear if the landfill will continue to make payments while the litigation is ongoing. These payments average nearly \$3 million annually, or 25 percent of the Town's budget. Historically, the Board budgeted to use these revenues for operations, which allowed the Town to maintain a low tax levy. Because it was uncertain whether payments would be received, the Board did not budget for host agreement revenues in 2018. Therefore, an increase in the tax levy of \$2.37 million (89 percent) was necessary to fill this revenue gap. While the Town received host agreement revenues in 2018, officials need to plan what services it will continue to provide and how to fund those services absent this revenue source in the future. The Board adopted a local law in 2016 that effectively requires the landfill to cease operations by 2025.

Town officials informed us that the water and sewer infrastructure will require upgrades estimated to cost \$24 million over the next several years. However, minimal reserves are maintained, and a formal reserve plan has not been developed. While unrestricted fund balance in each of these funds is excessive, the sewer fund has less than 25 percent of its total fund balance in reserves, while the water fund has no reserves as of 2017. Further, the unrestricted fund balance in either fund would not be adequate to fully support these repairs. In total, the available fund balance in the water and sewer funds is approximately \$6.94 million, or enough to fund 29 percent of the estimated repairs and upgrades.

The lack of comprehensive long-term plans inhibits the Town's ability to effectively manage finances and address needs without overburdening taxpayers. Town officials must remain cognizant of future needs and available revenue streams when strategically planning.

What Constitutes Effective Contracts and Agreements?

Written contractual agreements should clearly define and communicate the intentions of both parties, and clearly address the needs, expectations, roles and responsibilities of the contracted parties, including pricing, billing and terms of payment. Such agreements should be as specific as possible to implement the parties' intent. Policies or agreements that are unwritten or lack such details can lead to indecision, disagreements or additional unanticipated costs. Town officials should ensure that contracts are periodically monitored to ensure compliance.

The Board Did Not Ensure Adequate Contracts Existed and Did Not Appropriately Monitor Contracts and Agreements

We reviewed ten financial relationships between the Town and third parties and available contracts⁴ to ensure adequacy, and determine whether the Board was monitoring contracts and agreements for compliance with terms. We identified various issues. Specifically:

- The host agreement requires the landfill to provide specific reports to the Town on a regular basis, along with a copy of its annual audit and to make payments quarterly. We confirmed that the Town receives reports as stipulated and that payments are made quarterly. The reports are maintained in the Town Clerk's office, but there is no evidence that these reports are reviewed by the Board or a designee and the information verified. Because host agreement funds are a significant revenue source to the Town, and these payments are based on the landfill's quarterly self-reported gross receipts, verification of this information is especially important.

⁴ We reviewed contracts that we had prior knowledge of, or that we were made aware of during our audit process.

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- The Town has a lease agreement with the Chief Wastewater Treatment Plant (WWTP) Operator to rent a house that is within the water treatment plant property⁵ fence for \$600 per month. The executed and signed lease agreement could not be provided, and only an unsigned copy was available, which was outdated. In January 2018, the Supervisor unilaterally approved the discontinuance of rent payments, in lieu of a raise for the Operator. This decision was not approved by the Board, nor were Board members aware of it until July 2018. Rent-free housing may be a taxable benefit; however, the Town was not withholding taxes from the employee for this additional amount nor was there evidence that a determination had been made that it should not be taxed.
 - The Town has some sewer customers that are outside the Town. However, the Town did not have contracts, or contracts were outdated, for these customers. These specific contracts are important because unpaid sewer bills cannot be relieved through taxes for outside Town customers, which is a significant enforcement method.
 - The Town pays approximately \$55,000 annually to the local economic development corporation without a contract detailing services to be provided. Town officials could not provide a definitive response to support what these funds were used for or the specific services provided.
 - The Town pays \$5,000 annually to a local museum without a written agreement detailing services to be provided, which would constitute a donation or gift of public funds to a private organization for which there is no statutory authority.

Without written contracts or agreements, the intentions of the Town and related parties are unclear. A lack of contracts or agreements could result in additional liabilities to the Town. By not periodically monitoring contracts and agreements, the Board cannot ensure that related parties are complying with contract terms in the best interest of its taxpayers.

What Do We Recommend?

The Board should:

1. Develop and adopt budgets that include realistic estimates for revenues and expenditures, and which appropriate a reasonable and necessary amount of fund balance.
2. Establish written policies governing the amount of unexpended surplus funds that the Town should reasonably maintain.

⁵ The property is surrounded by a fence, and access is restricted.

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3. Ensure that budget transfers are made in a timely manner so that budget line items are not over expended. Transfers should also be presented to the Board for approval at the next Board meeting.
 4. Develop and adopt comprehensive multiyear financial and capital plans for a three- to five-year period that assess long-term needs and alternative approaches to financial issues.
 5. Adopt a formal reserve plan that clearly communicates to taxpayers the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund, and the optimal or targeted funding levels and conditions under which each fund's assets will be used or replenished.
 6. Review all contracts and agreements periodically to ensure they are in place where necessary and that terms are still relevant and updated.
 7. Review the tax implications of providing free housing as compensation to an employee.
 8. Establish procedures for contract monitoring to assure that all services are provided to the Town as documented, and parties generally comply with contract terms.

Appendix A: Response From Town Officials

TOWN OF SENECA FALLS

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130 Ovid Street
Seneca Falls, New York 13148

April 1, 2019

Edward V. Grant, Jr., Chief Examiner
Rochester Regional Office
16 W. Main Street, Suite 522
Rochester, NY 14614-1608

Dear Mr. Grant:

As Supervisor for the Town of Seneca Falls, I am hereby submitting my formal response to the recent OSC Town of Seneca Falls Financial Management Report of Examination. I am in agreement with the findings of the Audit Report

If any further information is needed please feel free to contact me at the Town of Seneca Falls Municipal Building. The Board is working on its corrective action plant which will be forthcoming.

TOWN OF SENECA FALLS

Gregory P. Lazzaro
Town 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 objective⁶ and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials regarding financial operations.
- We reviewed adopted policies and procedures and Board minutes.
- We analyzed and summarized historical financial trends in the general, water and sewer funds for 2015 through 2017.
- We reviewed adopted budgets for 2015 through 2018.
- We reviewed various contracts and agreements that affect the Town's finances to determine whether the contract terms were adequate and whether the Board was monitoring and enforcing contract terms.

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 Clerk's office.

⁶ We also issued a separate audit report, *Town of Seneca Falls – Town Hall Capital Project (2018M-220)*.

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#lmgm

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/pubs/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/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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