

# Town of Ancram

## Financial and Capital Planning

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NOVEMBER 2019

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

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# Report Highlights

## Town of Ancram

### Audit Objective

Determine whether the Board established multiyear plans and financial policies to adequately manage the Town’s finances.

### Key Findings

The Board did not:

- Develop comprehensive multiyear financial or capital plans.
- Adopt a fund balance and reserve policy.

### Key Recommendations

- Develop and adopt a comprehensive multiyear financial and capital plan for a five-year period.
- Develop a fund balance and reserve policy to govern the levels of unrestricted fund balance and reserves to maintain.

Town officials generally agreed with our findings and indicated they plan to initiate corrective action.

### Background

The Town of Ancram is located in Columbia County. The Town is governed by an elected Board which is composed of a Supervisor and four Board members. The Board is responsible for the general management and control of the Town’s financial operations, including adopting the annual budget and establishing financial policies.

The Supervisor serves as the chief executive officer, chief fiscal officer and budget officer and is responsible for day-to-day financial operations. The Supervisor appointed an independent certified public accountant to maintain the accounting records and assist in the financial reporting and filing.

#### Quick Facts

Population	1,330 <sup>a</sup>
2018 General Fund Appropriations	\$618,695
2018 Highway Fund Appropriations	\$1,011,350
2018 General Fund Tax Levy	\$130,369
2018 Highway Fund Tax Levy	\$637,350
2018 General Fund Unrestricted Fund Balance	\$884,886

<sup>a</sup> US Census Bureau, Ancram Population 2017

### Audit Period

January 1, 2017 – October 23, 2018. We extended our scope back to January 1, 2014 and forward to December 31, 2018 to analyze financial trends.

# Multiyear Planning

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## Why is Multiyear Planning Important?

Multiyear planning consists of several components, including multiyear financial and capital plans and fund balance and reserve fund policies. Such policies provide guidance on optimal funding levels for fund balance and reserves, along with plans for circumstances when these funds may be used. These plans and policies are an important planning tool for the board and an effective means of communicating the board's goals and priorities to town taxpayers. 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 budgeting decisions on future years. It also allows officials to assess the impact and merits of alternative approaches to address financial issues, such as accumulating money in reserve funds, obtaining financing or using surplus funds to finance annual operations.

The board should develop comprehensive multiyear financial and capital plans that set long-term priorities and goals. To accomplish the goals and priorities of the plans, the board should adopt a fund balance and reserve policy to provide guidance to officials during the annual budget process. Such a policy should define what is considered an adequate level of fund balance to be maintained and the reserves to be funded and used. Reserve funds are a mechanism for saving money to finance all or part of future capital needs and help provide financial stability. They reduce the need to cut services or to raise taxes if funds are not otherwise available. The board is legally allowed to establish reserve funds for certain future purposes (e.g., capital improvements and repairs) and the amounts reserved should be reasonable based on identified or planned needs. These plans and policies are an important planning tool for the board and an effective means of communicating the board's goals and priorities to town taxpayers.

A board is responsible for accurately estimating revenues and appropriations in the town's annual budget, maintaining reasonable levels of fund balance and using reserve funds appropriately. The estimation of fund balance is an integral part of the budget process because the board is responsible for retaining enough unrestricted fund balance at the end of the year to provide a reasonable financial cushion for unexpected events and cash flow in the ensuing year.

New York State Town Law (Town Law)<sup>1</sup> allows a town to budget for a contingency of up to 10 percent of appropriations to provide for town operations when available fund balance is insufficient. If fund balance levels become excessive, funds that could benefit the town are not being used, thereby placing an unnecessary burden on town taxpayers.

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<sup>1</sup> New York State Consolidated Laws, Town Law (Town Law), Article 8, Section 107(2)

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## **The Board Did Not Adopt Comprehensive Multiyear Financial and Capital Plans or a Fund Balance and Reserve Policy**

The Board has not developed comprehensive written multiyear financial and capital plans or a fund balance and reserve policy. Although the Board prepared an informal capital purchase plan, it did not contain a detailed description of all capital projects for a six-year period, estimated cost, proposed method of financing, priority of projects and an estimate of effect on annual operating costs. The Board did not include all of the components of a formal comprehensive multiyear capital plan and believed the informal capital purchase plan document (consisting of a list of proposed annual capital expenditures) was sufficient. Without comprehensive plans, the Board cannot assess expenditure commitments, revenue trends, financial risks and the affordability of new services and capital investments.

## **The Board Improperly Budgeted for Contingency and Transfers**

We compared estimated revenues and appropriations to actual revenues and expenditures for the last five years (2014 through 2018). We found that the Board budgeted \$352,440 in the general fund contingency over the last five years and did not use it. In addition, the amount budgeted in this account exceeded the 10 percent allowable statutory limit in two years, in 2017 by \$13,459 (3 percentage points) and \$86,733 (20 percentage points) in 2018. The Board budgeted for contingency as a method to accumulate fund balance for future capital expenditures. The Supervisor was aware of the 10 percent statutory limit; however, he did not know that highway funds should not be included in the calculation. Budgets were prepared with the goal of maintaining a certain amount of fund balance for future capital expenditures. This should have been accomplished by budgeting for a transfer to capital reserves in order to stay within the limit for the contingency account and to clearly show the Board's intent as part of the budget.

## **What Do We Recommend?**

The Board should:

1. Develop multiyear financial and capital plans.
2. Develop a fund balance and reserve policy to establish desired levels of unrestricted fund balance and reserves to maintain.
3. Consider establishing reserves, as part of its long-term planning efforts, to set aside funds for identified future expenditures. When establishing reserves, the Board should clearly establish the purpose, planned uses and desired funding level of each reserve.

# Appendix A: Response From Town Officials

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Ancram NY 12502  
518-329-6512  
[www.townofancram.org](http://www.townofancram.org)

September 19, 2019

Lisa Reynolds  
Chief, Local Government and School Accountability  
33 Airport Center Drive, Suite 103  
New Windsor NY 12553

Dear Ms. Reynolds,

The Ancram Town Board has received and reviewed the draft findings of the recently completed audit of the Town. The Board would like to express its appreciation for the professionalism of the audit team, and for the many insights and suggestions we received during the audit process.

Here are the Town Board's responses to the three audit recommendations:

**1) Develop Multiyear Financial and Capital Plans** - The Ancram Town Board believes it has a multiyear financial & capital plan in the form of our 5 year capital spending program. This plan is reviewed and revised at least annually as part of the annual budget process, and is modified as new capital spending needs are identified or previously planned spending decisions are reviewed and revised. The 5 year Capital Plan identifies the cost of specific facility and equipment purchase or major repair decisions for the next 5 years by year. Projects in the capital plan are funded by allocations from the fund balance or by borrowings when the project finally gets underway.

The Board understands you would like to see something more formal than our 1 page plan, and agree that additional backup as part of the 5 year capital plan would be a good idea. We believe we can expand the plan with supporting details as you recommend, while maintaining the flexibility to update the plan easily and regularly as expenditure commitments, revenue trends, financial risks and the affordability of new services and capital investments are analyzed, debated and priorities decided within the larger context of annual operations and budget development.

**2) Develop Fund Balance & Reserve Policy** - The Ancram Town Board believes it has a fund balance and reserve policy which is adopted annually as part of our Organizational Resolutions. We understand that you recommend we establish a formal fund balance and reserve policy independent of the annual Organizational Resolutions, and will do that by adding a formal Fund Balance and Reserve Policy to our Financial Control Process Manual. For reference, here is the language from section 5.15 of the 2019 Organizational Resolutions document that is the basis for our Fund Balance and Reserve Policy. Similar language has been part of previous year Organizational Resolutions.

*5.15 To insure that the Town has adequate financial reserves to operate during the first two months of the year before current year taxes are received, to finance grant awards and*

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*CHIPS costs, to make periodic major equipment purchases without borrowing and to deal with unexpected and uncontrollable expense overruns or revenue shortfalls, the Town will maintain year-end fund balances totaling approximately 1.5X the amount of county, state and federal aid and grants received in the previous year, and based on receiving sales tax, mortgage tax, and CHIPS aid totaling approximately \$535,000 in 2018, that the Budget Officer will manage the Town's financial affairs to target a 2019 year-end fund balance totaling approximately \$800,000.*

**3) Consider establishing reserves for identified future expenditures** – The Town Board has had extensive discussions over the years about the value of establishing formal reserves for specific, planned future spending projects or purchases, versus maintaining a fund balance that is not formally reserved or designated for any specific spending until a planned project or purchase is actually initiated. The Board has concluded that it is more appropriate to maintain unallocated, unassigned financial resources in the form of a General Fund fund balance that is sufficient to meet the capital needs of all town departments (including Highway) based on planned future spending levels. The Board has also concluded that it is in the Town's interests to maintain unallocated, unassigned fund balances to give the current and future boards flexibility in determining and funding priorities as the board considers and discusses future capital spending plans.

Based on conversations with your audit team, the Board will reconsider this matter and will consider assigning, by resolution, part of the General Fund balance to high probability future projects as part of the annual budget process.

#### **Corrective Action Plans to be taken by the Town Supervisor**

**1) The Town will expand the current multiyear financial and capital plan to include more detail, such as formal cost estimates for each planned project as they are available, as recommended by the audit team. Timetable – effective immediately.**

**2) The Town will expand the fund balance and reserve policy, currently included as part of the annual Organizational Resolutions, and establish a separate fund balance and reserve policy statement which will be included as part of the Town's Financial Control Process Manual. Timetable – with adoption of 2020 Financial Control Process Manual by 1/31/2020.**

**3) The Town will consider assigning by resolution a portion of the fund balance to specific projects planned during the next calendar year as part of the budgeting process. Timetable – effective immediately.**

Please feel free to contact me if you have any questions about our response to the audit.

Sincerely yours,

Arthur J. Bassin  
Ancram Supervisor

## 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 to gain an understanding of the policies and procedures related to financial management, including budgeting and capital planning.
- We reviewed Board minutes and monthly and annual reports provided to Board members to determine the extent of financial information received by the Board in 2017 and 2018.
- We reviewed fund balance resolutions in the reorganization minutes to compare the combined fund balance for general and highway funds to the aid received in the previous year and to the tax levy to determine whether the Board complied with its resolution.
- We determined the Town's fund balance as a percentage of the ensuing year's budgeted appropriations for the last five fiscal years 2014 through 2018.
- We reviewed the Town's adopted budgets for the 2014 through 2018 fiscal years to determine trends in the tax levy and fund balance, including appropriations.
- We reviewed the Town's budget to actual reports for the years 2014 through 2018 to determine the amount by which the Town over- or underestimated specific expenditure and revenue accounts and to identify capital expenditures paid from the general fund.
- We reviewed the Town's contingency account for the 2013 through 2018 fiscal years and compared the account balance with budgeted operating expenditures to determine compliance with statutory limits.

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.

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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/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.osc.state.ny.us/localgov/academy/index.htm)

## Contact

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