

Town of Brandon

Financial Condition

APRIL 2020



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

Contents

- Report Highlights 1**

- Financial Condition 2**
 - How Should the Board Effectively Manage Financial Condition? . . . 2
 - The Board Adopted Unrealistic Budget Estimates 3
 - The Board Did Not Effectively Monitor Fund Balance 6
 - The Board Did Not Adopt Multiyear Financial and Capital Plans . . . 7
 - What Do We Recommend? 7

- Appendix A – Response From Town Officials 9**

- Appendix B – Audit Methodology and Standards 10**

- Appendix C – Resources and Services 11**

Report Highlights

Audit Objective

Determine whether Town officials effectively managed the Town's financial condition.

Key Findings

- Inadequate budgetary practices have resulted in the highway fund balance declining from \$58,241 on January 1, 2017 to \$5,714 as of December 31, 2019.
- The highway fund's appropriations were overspent three consecutive years (2017-2019), resulting in operating deficits.
- The Board does not have a policy to maintain a reasonable level of fund balance.
- The Board has not adopted a long-term financial or capital plan.

Key Recommendations

- Include more realistic estimates of revenues and expenditures when developing and adopting the annual budget.
- Discontinue overspending appropriations and appropriating unavailable fund balance to finance operations.
- Develop and adopt a fund balance policy to establish reasonable levels of fund balance, along with a long-term financial and capital plan.

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

Background

The Town of Brandon (Town) is located in Franklin County.

The Town is governed by an elected five-member Town Board (Board), composed of four Board members and the Town Supervisor (Supervisor). The Board is responsible for the general oversight of operations and finances.

The Supervisor, as chief fiscal officer, is responsible for the Town's day-to-day management, maintaining the accounting records, and preparing and filing annual financial reports. The Supervisor has appointed a bookkeeper to maintain the records and prepare financial reports on his behalf.

Quick Facts

Population	566
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2019 Total Appropriations	\$400,569
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Audit Period

January 1, 2017 – September 30, 2019

Financial Condition

How Should the Board Effectively Manage Financial Condition?

A board is responsible for the financial planning and management necessary to maintain a town's fiscal health. An essential component of a board's duties and responsibilities is to make sound financial decisions that are in the best interests of both the town and its taxpayers. This requires the board to balance the level of services desired and expected from town residents with the ability and willingness of the residents to pay for such services. To meet these responsibilities, it is essential that the board adopt realistic and structurally balanced budgets that contain realistic appropriations and the resources available to fund them.¹

A board may appropriate a portion of fund balance as a financing source in the next year's budget to reduce the tax levy. The estimation of fund balance is an integral part of the budget process because the board is responsible for retaining enough fund balance at year-end to provide a reasonable financial cushion for unexpected events and cash flow in the next year. If there is more fund balance than needed for cash flow and a reasonable provision for unexpected events, it can be appropriated to reduce the amount needed to be raised in taxes. Appropriating fund balance results in a planned operating deficit. This provides a benefit to the taxpayers. However, it is important for the board to ensure enough fund balance is available to appropriate after considering the amount of fund balance that should be retained.

The amount of fund balance available should be monitored on an ongoing basis. To help town officials manage financial operations and ensure continued funding for town operations, the board should adopt a policy establishing an acceptable level of fund balance to be maintained. Declining levels of fund balance should be addressed to avoid potential cash flow concerns that can impact the town's ability to pay current obligations.

Additionally, the board should create multiyear financial and capital plans.² 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 the use of fund balance to finance operations. The board must monitor and update long-term financial plans on an ongoing basis to ensure that its decisions are guided by the most accurate information available.

¹ Refer to our publication *Understanding the Budget Process*, available on our website. www.osc.state.ny.us/localgov/pubs/lmgm/budgetprocess.pdf

² Refer to our publications *Multiyear Financial Planning and Multiyear Capital Planning*, available on our website. www.osc.state.ny.us/localgov/pubs/lmgm/multiyear.pdf
www.osc.state.ny.us/localgov/pubs/lmgm/capital_planning.pdf

The Board Adopted Unrealistic Budget Estimates

Highway Fund – We compared estimated revenues and appropriations to actual revenues and expenditures for the three fiscal years 2017 through 2019 (Figure 1). We found that the Board consistently underestimated revenues by a total of 13 percent and expenditures by a total of 15 percent in the highway fund. Each year, the revenue budget line for highway improvements was underestimated by more than \$30,000.³ However, the Board also underestimated the appropriation for road repairs and spent the additional \$30,000 received for highway improvements without amending the budget.

Two additional appropriations that were consistently underestimated were general repairs and machinery. For example, the highway department overspent appropriations for general repairs by \$52,727, \$11,983 and \$11,964 in the years 2017 through 2019. Machinery appropriations were also overspent by \$15,328 in 2017 and \$8,123 in 2018. Additionally, the Board approved the purchase of a new \$37,000 pickup truck for the Highway Superintendent in April 2019 without any budgetary provision in the adopted budget or budget amendment to pay for it. As a result of these budgetary practices, the highway fund budget was overspent by more than \$139,000 over the past three years, of which more than \$28,000 was not funded by a recurring revenue source and resulted in using fund balance to finance the expenditures.

Figure 1: Highway Fund - Budget to Actual and Operating Results

	2017	2018	2019	Total
Estimated Revenues	\$253,875	\$242,319	\$250,066	\$746,260
Actual Revenues	\$287,458	\$285,274	\$284,475	\$857,207
Underestimated Revenues	(\$33,583)	(\$42,955)	(\$34,409)	(\$110,947)
Percentage Underestimated	(12%)	(15%)	(12 %)	(13%)
Estimated Appropriations	\$253,875	\$254,319	\$262,066	\$770,260
Actual Expenditures	\$302,716	\$316,493	\$290,525	\$909,734
Underestimated Appropriations	(\$48,841)	(\$62,174)	(\$28,459)	(\$139,474)
Percentage Underestimated	(16%)	(20%)	(10 %)	(15 %)
Variance	(\$15,258)	(\$19,219)	\$5,950	(\$28,527)

The Board appropriated \$12,000 of fund balance to finance operations in the 2019 highway budget despite having only \$11,764 of fund balance available to appropriate, leaving no flexibility for unplanned expenditures (Figure 2). As a result of the lack of available fund balance and the highway budget being overspent for the third consecutive year, the highway fund will have a fund

³ The Town budgeted \$74,435 and actually received \$104,719 for Consolidated Highway Improvement Program (CHIPs) funds from New York State.

balance of \$5,714 for the year ending December 31, 2019. The Board's practice of adopting unrealistic highway budgets without using historical operating results to develop estimates when preparing budgets has resulted in declining fund balances and financial condition concerns in the highway fund.

Figure 2: Highway Fund Balance and Operating Results

	2017	2018	2019
Beginning Fund Balance	\$58,241	\$42,983	\$11,764
Revenues	\$287,458	\$285,274	\$284,475
Expenditures	\$302,716	\$316,493	\$290,525
Operating Surplus/(Deficit)	(\$15,258)	(\$31,219)	(\$6,050)
Ending Fund Balance	\$42,983	\$11,764	\$5,714
Less: Fund Balance Appropriated to Finance Next Year's Operations	\$12,000	\$12,000	\$12,000
Unassigned Fund Balance/ (Budgetary Deficit)	\$30,983	(\$236)	(\$6,286)

In October 2019, we discussed with the Supervisor that we projected a deficit fund balance for the highway fund and no fund balance would be available to appropriate as a funding source for the 2020 fiscal year. However, the Board did not adjust the preliminary budget and adopted the 2020 budget with \$12,000 appropriated fund balance, similar to what it did in the prior two years. As a result, the highway fund will begin 2020 with a budget deficit of \$6,286 because officials appropriated \$12,000 of fund balance with only \$5,714 available.

The highway fund ended 2019 with \$5,714 of fund balance instead of a deficit because the Highway Superintendent delayed planned purchases and the Supervisor did not pay all of the 2019 year-end vouchers until 2020. The Highway Superintendent told us he waited to purchase \$6,500 of supplies and the Supervisor held 2019 vouchers totaling approximately \$7,400 until January 2020 to avoid ending the year with a deficit. Had these purchases been made as scheduled, the highway fund would have exhausted all of its available fund balance and required the general fund to either loan or transfer funds to cover the highway fund deficit.

The Town can loan or transfer money from the general fund to the highway fund to finance a deficit. However, the continued decline of highway fund balance and lack of Board action to improve the highway budget will require more general fund balance to be used each year as a financing source for highway expenditures.

General Fund – Overall, the adopted general fund budgets were reasonable in comparison to the actual results of operations each year. Revenue estimates were realistic and the budgets included \$9,300 each year for a contingency account as a budgetary means to provide funding for unexpected events. The

general fund had a small operating deficit of \$5,076 for 2017 and operating surpluses for 2018 and 2019 of \$15,386 and \$10,219, respectively, resulting in the general fund balance increasing from \$19,258 to \$44,863 over the past three years (Figure 3). The general fund balance has increased due to the Board developing and adopting more realistic and conservative budgets over the past three years.

Figure 3: General Fund Balance and Operating Results

	2017	2018	2019
Beginning Fund Balance	\$24,334	\$19,258	\$34,644
Revenues	\$94,644	\$115,539	\$151,472 ^a
Expenditures	\$99,720	\$100,153	\$141,253
Operating Surplus/(Deficit)	(\$5,076)	\$15,386	\$10,219
Ending Fund Balance	\$19,258	\$34,644	\$44,863
Less: Fund Balance Appropriated to Finance Next Year's Operations	\$12,453	\$12,453	\$12,453
Unassigned Fund Balance	\$6,805	\$22,191	\$32,410

a) The Town received a \$38,000 playground grant for the purchase of playground equipment that was recorded in general fund revenues and expenditures in 2019.

Although the Board receives monthly budget-to-actual reports to allow it to compare estimated revenues and appropriations to actual revenues and expenditures, it does not make timely budgetary amendments during the year. Instead, the Board approves budgetary amendments in January, after the fiscal year has concluded. Making budgetary amendments after the completion of the fiscal year provides no meaningful or beneficial purpose and does not prevent the Town from incurring expenditures in excess of appropriations or making necessary adjustments to estimates when actual revenues fall short of estimates. As a result, appropriations are consistently overspent in the highway fund. The purpose of monitoring the budget on a monthly basis is to prevent over expenditures by making amendments to the budget before appropriations are over expended.

Without a clear understanding of the Town's finances, Board members are not in a position to evaluate the proposed budget before adoption. As a result, the Board continues to adopt highway budgets based on prior years' budgets and not actual results of operations. The Supervisor told us that he feels the taxpayers cannot afford tax increases so the Town adopts unrealistic highway budgets with little or no increases in appropriations to reflect how much the fund actually expends each year. He also feels there is need to control spending in the highway department. However, adopting unrealistic budgets, not making necessary budgetary amendments during the year and continuing to spend more money than budgeted has resulted in the highway fund's financial decline. Its financial condition is likely to get worse because the Board adopted another unrealistic

highway budget for 2020. Moreover, the practice of not preparing a reasonable budget and allowing it to be overspent does not achieve the objective of keeping taxes down. It simply defers a larger increase to a future year and does not control spending because the budget is not monitored timely.

The Board Did Not Effectively Monitor Fund Balance

The general and highway funds' total combined fund balance has decreased from \$82,575 as of January 1, 2017 to \$50,577 as of December 31, 2019, which is 12 percent of the 2020 combined budget appropriations of \$406,208.

The highway fund balance decreased from \$58,241 at the beginning of 2017 to less than \$12,000 as of December 31, 2018. The Board adopted a highway budget for 2019 that included appropriating all the available fund balance. Even though the highway fund budget was overspent in total each year, we found no indication that the Board discussed adopting a more reasonable budget or took any action to address the Town's decreasing level of fund balance. Board members told us that they receive monthly reports including the general and highway fund balances. However, they have never formally established what a reasonable amount of fund balance is that should be maintained.

The Town generally operates on a cash basis where fund balance levels represent the amount of cash on hand. Because the Board has not adequately monitored fund balance, the Town has experienced cash flow concerns that the Board did not address. For example, at the end of 2018, the Town withheld paying 2018 vouchers totaling \$10,169 for the highway fund until January 2019 when the revenue from tax collections was received. The Town repeated the process by withholding approximately \$7,400 of 2019 vouchers until January 2020. We reviewed the Town's cash balances for 2019 and noted that, as of June 30, 2019, the highway fund had insufficient funds available to pay employee payroll. The general fund advanced \$49,700 from July 1 to September 1 to cover the highway department expenditures. The highway fund repaid the general fund in September 2019 when it received money from New York State for highway improvements. We found no evidence that the Board reviewed and approved these advances.

The highway fund has a cash balance of \$5,714 at the end of 2019. The general fund would have to make additional advances to the highway fund to pay outstanding payroll and claims to complete the year had the Highway Superintendent not delayed making purchases totaling \$6,500 and paying \$7,400 of 2019 vouchers. The Supervisor projected they would be able to pay bills and payroll through the end of the year. However, he accomplished this by shifting 2019 costs to the 2020 budget. The adopted budget for 2020 will likely result in a further deterioration of financial condition in the highway fund and require the highway fund to rely on the cash available in the general fund to cover shortfalls if expenditures are not controlled throughout the year. Unless the Board takes

action to address financial condition, it is likely the highway fund will be unable to pay its bills in 2020 without borrowing from the general fund to pay for operating expenses.

The Town's financial condition will likely decline even further in the future if the Board continues to adopt budgets that are not realistic and structurally balanced. Further, if no action is taken to address declining fund balance levels and control expenditures, the Town could accumulate a deficit fund balance in the highway fund that would require the general fund to deplete its available fund balance. If these trends are allowed to continue, the Town will incur fiscal instability that will negatively affect future Town operations.

The Board Did Not Adopt Multiyear Financial and Capital Plans

The Board has not adopted multiyear financial or capital plans. Multiyear financial and capital plans, in conjunction with sound budgets, allow the Board to prepare for future acquisitions of equipment and needed repairs, plan for how they will be financed, address the use of fund balance and maintain a reasonable level of fund balance in each fund. The establishment of multiyear plans would help guide officials as they develop future budgets and provide more transparency to taxpayers of long-term financial and capital goals.

Board members told us that they have not established multiyear financial and capital plans because they focus on the Town's immediate needs on a year-to-year basis, controlling spending and minimizing taxes. However, as noted previously in this report, the Board has not effectively managed the Town's finances on a year-to-year basis. The annual budgets adopted by the Board have not been realistic and have consistently been over expended. Additionally, the lack of multiyear plans means the Town does not have a strategy for how the Town will continue to pay for and provide services, especially in light of the declining fund balance. Without adequate plans, the Board cannot assess its expenditure commitments, revenue trends, financial risks, and the affordability of new services and capital investments.

What Do We Recommend?

The Board should:

1. Develop a plan to address the impending cash flow problems that will develop during 2020 if no action is taken.
2. Adopt more realistic estimates of revenues and expenditures when adopting the annual budget.
3. Monitor and amend the budget throughout the year prior to appropriations becoming over expended.

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4. Discontinue adopting budgets that appropriate fund balance that is not available.
 5. Develop and adopt a fund balance policy to ensure reasonable levels of fund balance are maintained.
 6. Develop realistic plans to improve the highway fund's financial condition.
 7. Develop and adopt multiyear financial and capital plans to establish the goals and objectives for funding long-term operating and capital needs. Monitor and update these plans annually.

Appendix A: Response From Town Officials

TOWN OF BRANDON

SUPERVISOR
MICHAEL R LAWRENCE
210 COUNTY ROUTE 13
NORTH BANGOR NY 12966
518 651-5069

APRIL 10, 2020

Response to audit period January 1, 2017 - September 30, 2019

In the current time of uncertainty, we plan to freeze spending without prior approval of the Budget Officer.

We will attempt to adopt more realistic estimates of revenues and expenditures when adopting the next annual budget as suggested.

We will plan to amend line items as the need occurs, not waiting until the following year.

We will not adopt another budget without appropriate fund balance available.

I plan to deposit funds in the account recommended by the state auditor to cover year end fund balance. We will also audit the current fund balance on a month to month basis.

The plan to freeze spending without approval of the budget officer should improve the highway funds financial condition.

I feel I have multiple errors to correct before I can develop a multi year financial plan. This will be considered as we may improve funding habits to include long term operating and capital needs in the future as suggested.

I found the audit to be very informative. I have learned a great deal from [REDACTED] during this audit.

It is very obvious the Supervisor and Board Members need to employ a much stronger position with the budget process.

I felt the audit was very fair and directed us toward better use of the taxpayers dollar. We thank you for your help and redirection suggestions.

04/10/20

Michael R Lawrence
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, our audit procedures included the following:

- We compared the Board-adopted budgets to the actual results of operations to determine whether budget estimates were reasonable and whether revenues and expenditures were over- or under-estimated.
- We interviewed Town officials to gain an understanding of the policies and procedures related to financial management, including budgeting.
- We reviewed Board minutes and monthly reports provided to Board members to determine the extent of financial information received.
- We calculated operating results and fund balance for the general and highway funds to assess financial condition.

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 Town 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#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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www.osc.state.ny.us/localgov/index.htm

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